ECONOMIC UPDATE

REGIONS

July 6, 2018

June Employment Report: U.S. Economy Keeps Humming Along

- Nonfarm employment rose by 213,000 jobs in June; prior estimates for April/May were revised up by a net 37,000 jobs
- Average hourly earnings rose by 0.2 percent; aggregate private sector earnings rose by 0.3 percent in June (up 5.0 percent year-on-year)
- The unemployment rate rose to 4.0 percent in June (4.048 percent, unrounded); the broader U6 measure rose to 7.8 percent

Imagine how strong hiring would be if only firms weren't running out of workers to hire. Total nonfarm employment rose by 213,000 jobs in June, topping our forecast of 193,000 jobs, with private sector payrolls up by 202,000 jobs and public sector payrolls rising by 11,000 jobs. Prior estimates of job growth in April and May were revised up by a net 37,000 jobs for the two-month period. The unemployment rate rose to 4.0 percent, reflecting a reported 601,000 person increase in the labor force which pushed the participation rate up to 62.9 percent. The broader U6 rate, which includes unemployment and underemployment, rose to 7.8 percent from 7.6 percent in May. Average hourly earnings rose by 0.2 percent, good for a 2.7 percent year-on-year increase, while aggregate private sector wage and salary earnings were up 0.3 percent, leaving them up 5.0 percent year-on-year.

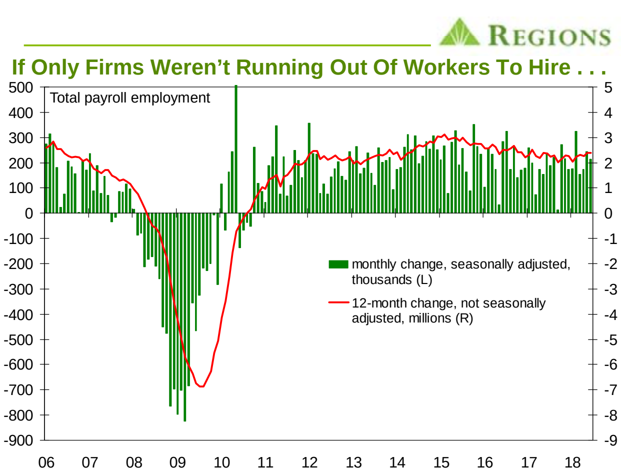
As has been the case over the life of the current expansion, job growth remained notably broad based in June. The hiring diffusion index, a measure of the breadth of hiring across private sector industries which we routinely refer to as our favorite beneath the headlines metric, came in at 65.5 percent in June, with the index for the manufacturing sector rising to 65.8 percent. To be sure, the breadth of hiring across industry groups tells us nothing about the intensity of that hiring, but over the past 12 months private sector payrolls have risen by an average of 196,000 jobs per month. That hiring remains this broad based and this robust this deep into the expansion should quash the notion that job growth is on the verge of running out of steam because firms "can't find any workers to hire," which we've always thought a ridiculous notion.

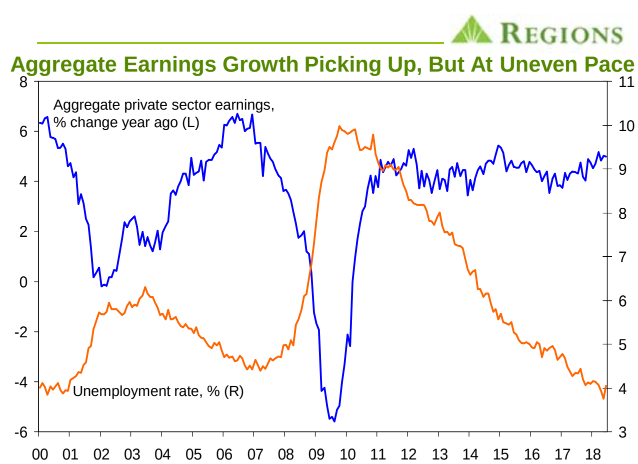
Job growth in June was led by education & health services (54,000), business services (50,000), manufacturing (36,000), and leisure & hospitality services (25,000). It should be noted that payrolls amongst motor vehicle manufacturers rose by 12,000 jobs in June after having fallen in May – this swing mainly reflects the fire at a major parts plant in May that led to partial shutdowns amongst vehicle producers. Either way, over the past 12 months manufacturing has added 285,000 jobs, but going forward it remains to be seen whether, or to what extent, widening trade disputes will impact domestic manufacturing activity.

The 0.2 percent increase in average hourly earnings was smaller than the 0.3 percent we and the consensus expected, and the year-on-year increase of 2.7 percent is in line with the pace seen over the prior six months but still shy of the pace of growth one would expect were the labor market truly at full employment. Though often overlooked, growth in aggregate wage and salary earnings, which accounts for the number of people working, the number of hours they work, and what they earn for each hour worked, is of far more relevance than hourly earnings growth alone. Aggregate private sector earnings were up 5.0 percent year-on-year in June and Q2 marks the third consecutive quarter with annualized growth of better than 5.0 percent. Solid growth in both employment and earnings is underpinning consumer confidence and growth in consumer spending.

As a general rule we do not pay too much attention to the month-to-month changes in the labor force, as this is a highly volatile number, and June is no exception. The underlying data on labor force flows is of much more relevance to us. Over 4.5 million people who were not in the labor force in May became employed in June, a notably high number but in line with what we've seen over the past 15 months, and over 1.9 million people entered the labor force as unemployed in June, higher than the recent run rate but which could reflect an influx of summer job seekers. We've argued that sizeable inflows into the labor force each month have acted as a brake on wage growth, and will continue to do so.

Recent months have seen considerable angst over trade wars, geopolitical tensions, diminishing monetary accommodation, and other factors that pose risks to the economic expansion. At this point, however, this has been little more than background noise to a U.S. economy that keeps humming along. This could change, of course, but our view is that it will take much more than these issues to trigger a significant slowdown in an economy amped up on fiscal stimulus.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com