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June Employment Report: Increased Volatility, But Trend Remains Solid

- Nonfarm employment rose by 224,000 jobs in June; prior estimates for April/May were revised down by a net 11,000 jobs
- Average hourly earnings rose by 0.2 percent in June; aggregate private sector earnings rose by 0.4 percent (up 4.6 percent year-on-year)
- The unemployment rate rose to 3.7 percent in June (3.667 percent, unrounded); the broader U6 measure rose to 7.2 percent

Total nonfarm employment rose by 224,000 jobs in June, topping our forecast of an increase of 193,000 jobs (consensus was 160,000), with private sector payrolls up by 191,000 jobs and public sector payrolls up by 33,000 jobs (which will almost surely be revised down). Revisions to prior estimates of job growth in April and May were unkind, however, with a net downward revision of 11,000 jobs for the two-month period. As we anticipated, the unemployment rate rose to 3.7 percent, while the broader U6 ticked up to 7.2 percent. Average hourly earnings rose by 0.2 percent, leaving them up 3.1 percent year-on-year. As we noted in our *Economic Preview*, aside from headline job growth, what to us would be the most important number in the June employment report would be the hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. Aside from job growth being surprisingly weak in May, hiring was reported to have been notably less broad based, which to us was a troubling sign. In that sense, the June data bring considerable relief – not only was the initial estimate for May revised higher, but the one-month hiring diffusion index rose to 60.7 percent in June. That hiring remains notably broad based is a sign that, despite the pace of growth having slowed, the current economic expansion has longer to run.

A month ago, we and other analysts were trying to discern whether the weak May print on job growth reflected the volatility that characterizes much of economic data or whether it was the start of a more ominous trend. We noted that we thought it was much more the former than the latter, but, in all honesty, we didn't have a great deal of conviction behind that call. To be sure, the pace of job growth is slowing, which we and most others had anticipated would be the case in 2019. Over the past 12 months, private sector payrolls have risen by an average of 176,000 jobs per month (based on the not seasonally adjusted data). While this is down from an average of 215,000 jobs per month in 2018, don't lose sight of the fact that the pace of job growth actually accelerated in 2018 which, as we noted on more than one occasion, was highly unusual this deep into an expansion. So, it should not be a surprise that the pace of job growth is slowing, and at present job growth is in line with what we saw in 2017.

The pace of job growth remains more than sufficient to keep downward pressure on the unemployment rate and upward pressure on wage growth. True, the unemployment rate did edge higher in June, reflecting increased participation. Part of this was driven by the largest June inflow of 16-to-19 year-old job seekers since 2007 (the increase in employment amongst this age cohort was also the largest June increase since 2007). It should also be noted that flows of people from not in the labor force in one month to employed in the next month remain strong, averaging over 4.6 million people per month, and we see further upside room for participation.

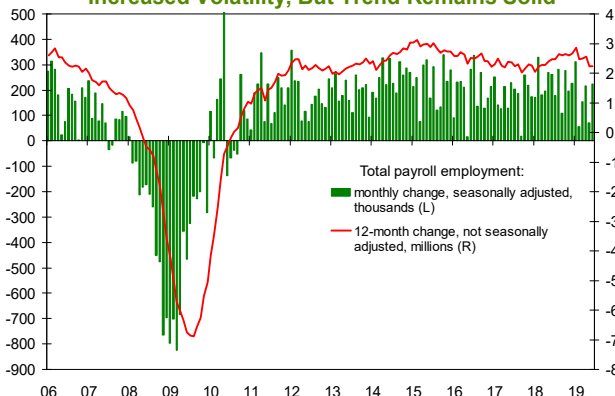
As was the case in May, seasonal hiring in retail trade, construction, and leisure & hospitality services was weak in June – this is based on the not seasonally adjusted data. Store closings continue to hold down hiring in retail, and weak hiring in the not seasonally adjusted data is translating into job declines in the seasonally adjusted data. We think that weather effects, specifically severe flooding in the Midwest and parts of the South, continue to weigh on hiring in retail trade and leisure & hospitality services. As was the case in May, the numbers of people either working only part-time hours or not at work at all due to weather in June were higher than is typical for the month.

While growth in average hourly earnings fell short of our forecast, May's increase was revised higher, and year-on-year growth remains above 3.0 percent. Of more significance, aggregate private sector wage and salary earnings were up 0.4 percent in June, and are up 4.6 percent year-on-year.

Our forecast anticipated a jump in public sector payrolls, reflecting hiring ahead of the 2020 Census. But, the increase of 33,000 jobs in June is due to local government payrolls having risen by 29,000 jobs, a nonsensically large increase that we expect will be revised lower next month. That said, the pace of hiring in the private sector remains quite healthy, which should alleviate concerns that the broader economy is being dragged down by uncertainty over trade policy. While not ruling it out, the June employment report makes a cut in the Fed funds rate at this month's FOMC meeting harder to justify, at least in our view.



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