

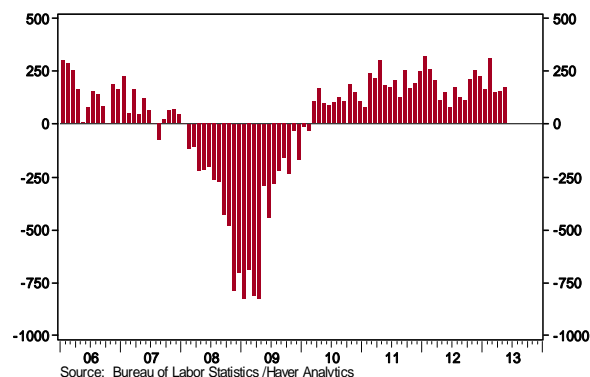
# May Employment Report

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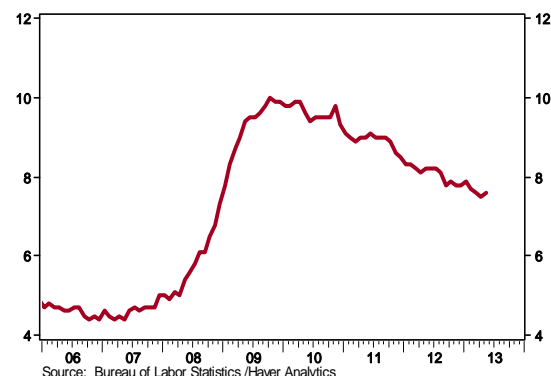
- Non-farm payrolls increased 175,000 in May versus a consensus expected 163,000. Including revisions to prior months, nonfarm payrolls were up 163,000.
- Private sector payrolls increased 178,000 in May, almost exactly the 175,000 the consensus expected. The largest gains were for professional & business services (+57,000, including temps), restaurants & bars (+38,000), and retail (+28,000). Government payrolls declined 3,000.
- The unemployment rate ticked up to 7.6% (7.555%) in May from 7.5% (7.510%) in April.
- Average weekly earnings – cash earnings, excluding benefits – were unchanged in May but up 2.0% from a year ago.

**Implications:** The labor market continues to move forward at a steady pace. Nonfarm payrolls increased 175,000 in May, 178,000 in the private sector. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 319,000. Although the unemployment rate ticked up to 7.6%, the “unrounded” figure was 7.555% (so, very close to a 7.5% headline) and the increase in the jobless rate was due to a 420,000 gain in the labor force. In the past year the labor force is up 550,000 while the unemployment rate has declined 0.6 percentage points. Total hours worked were up 0.1% in May, revised up for April, and up 2.2% in the past year. In combination with a 2% gain in average hourly earnings in the past year, total cash earnings are up 4.2%. After adjusting for inflation, these earnings are still up 3%+ from a year ago. In other words, workers are generating more purchasing power, consistent with our view that consumer spending will accelerate over the next couple of years. Together, these data forcefully reject the theory that the federal spending sequester is hurting the labor market. Since the sequester went into effect, private payrolls are up an average of 163,000 per month while government jobs (excluding the Post Office, which wasn’t effected by the sequester) are down 1,000 per month. In the same three months a year ago – March thru May 2012 – private payrolls were up an average of 160,000 while government ex-Post Office was down an average of 11,000. In other words, job growth is better this year overall and even in the public sector! The big financial market question is how the Federal Reserve reacts. We think today’s numbers support the case that it will start tapering its asset purchases in August. In other recent news on the labor market, new claims for unemployment benefits declined 11,000 last week to 346,000. Continuing claims for regular state benefits dropped 52,000 to 2.952 million. These figures suggest further moderate payroll growth in June. Obviously, the labor market is far from perfect. The unemployment rate is way too high and payroll growth too slow. What’s holding us back is the huge increase in government, particularly transfer payments, over the past several years. Despite that, entrepreneurs and workers are gritting out a recovery and the Plow Horse economy keeps moving forward.

**Change in Total Private Payrolls**  
SA, Thous



**Civilian Unemployment Rate: 16 yr +**  
SA, %



| <b>Employment Report</b><br><i>All Data Seasonally Adjusted</i> | May-13 | Apr-13 | Mar-13 | 3-month<br>moving avg | 6-month<br>moving avg | 12-month<br>moving avg |
|-----------------------------------------------------------------|--------|--------|--------|-----------------------|-----------------------|------------------------|
| <b>Unemployment Rate</b>                                        | 7.6    | 7.5    | 7.6    | 7.6                   | 7.7                   | 7.8                    |
| <b>Civilian Employment (monthly change in thousands)</b>        | 319    | 293    | -206   | 135                   | 83                    | 125                    |
| <b>Nonfarm Payrolls (monthly change in thousands)</b>           | 175    | 149    | 142    | 155                   | 194                   | 176                    |
| <b>Construction</b>                                             | 7      | -2     | 16     | 7                     | 22                    | 16                     |
| <b>Manufacturing</b>                                            | -8     | -9     | -4     | -7                    | 5                     | 3                      |
| <b>Retail Trade</b>                                             | 28     | 20     | -3     | 15                    | 17                    | 22                     |
| <b>Finance, Insurance and Real Estate</b>                       | 4      | 9      | 6      | 6                     | 8                     | 8                      |
| <b>Professional and Business Services</b>                       | 57     | 60     | 59     | 59                    | 58                    | 49                     |
| <b>Education and Health Services</b>                            | 26     | 37     | 48     | 37                    | 32                    | 30                     |
| <b>Leisure and Hospitality</b>                                  | 43     | 39     | 31     | 38                    | 41                    | 34                     |
| <b>Government</b>                                               | -3     | -8     | -12    | -8                    | -5                    | -5                     |
| <b>Avg. Hourly Earnings: Total Private*</b>                     | 0.0%   | 0.2%   | 0.0%   | 1.2%                  | 1.9%                  | 2.0%                   |
| <b>Avg. Weekly Hours: Total Private</b>                         | 34.5   | 34.5   | 34.6   | 34.5                  | 34.5                  | 34.5                   |
| <b>Index of Aggregate Weekly Hours: Total Private*</b>          | 0.1%   | -0.1%  | 0.4%   | 1.6%                  | 2.7%                  | 2.2%                   |

\*3, 6 and 12 month figures are % change annualized