

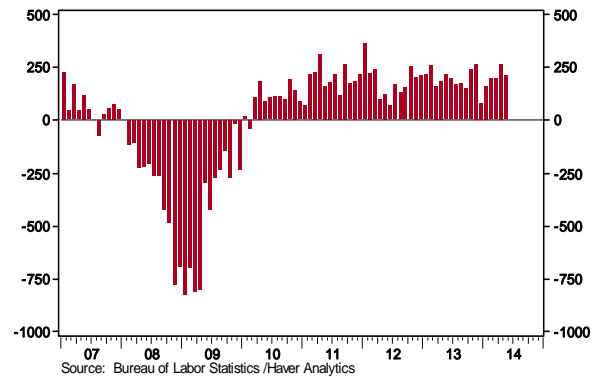
May Employment Report

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Nonfarm payrolls increased 217,000 in May, almost exactly the consensus expected 215,000. Including revisions to prior months, nonfarm payrolls increased 211,000.
- Private sector payrolls increased 216,000 in May. Including revisions to prior months, private payrolls also increased 211,000. The largest gains were for professional & business services (+55,000, including temps), health care & social services (+55,000), and restaurants/bars (+32,000). Manufacturing increased 10,000. Government payrolls rose 1,000.
- The unemployment rate remained at 6.3%.
- Average weekly earnings – cash earnings, excluding benefits – increased 0.2% in May and are up 2.1% versus a year ago.

Implications: Solid report on the direction of the labor market. Nonfarm payrolls increased 217,000 in May. That's the fourth straight month above 200,000, the first time that's happened since 1999-2000. The other leading piece of good news was the unemployment rate staying at 6.3% after the steep drop from 6.7% in March. Most economists had expected the jobless rate to tick back up. Moreover, the unemployment rate remained at 6.3% despite a 192,000 gain in the labor force. Civilian employment, an alternative measure of jobs that includes small business start-ups, increased 145,000. Unlike last month, most of the details in today's report were also good. Total hours worked and average hourly earnings were up 0.2% each, for a combined increase of 0.4% for May. This measure of total cash wages is up 4.2% in the past year, more than enough to fuel continued increases in consumer spending. Also, the median duration of unemployment fell to 14.6 weeks, the lowest in five years, and the share of voluntary job leavers among the unemployed increased to 8.9%, tying the highest level since 2008. In the past, Fed Chair Yellen has written that a higher share of leavers shows confidence in the labor market. The most negative news in today's report was that, despite the gain in the labor force, the participation rate stayed at 62.8%, still tied at the lowest level since the late 1970s. We think the long-term downward trend in labor force participation since 2000 is largely tied to the aging of the Baby Boom generation. However, we can't help but notice the impact on the labor market of the end of extended unemployment insurance at the start of the year. Extended benefits kept some people from working and also kept others, who really didn't intend to look for work, in the labor force (they had to claim they were looking to keep getting benefits). So the end of extended benefits should push down the jobless rate by both encouraging work among those who want to work and discouraging participation among those who really don't want to work. And, since the start of the year, we've had both faster payroll growth and a decline in the participation rate. As we always remind our readers, the labor market could and would be doing better with a better set of public policies. But it's still improving. In the past year nonfarm payrolls have grown at an average monthly rate of 198,000 while civilian employment is up 158,000 per month. We expect continued Plow Horse gains in the months ahead, pushing the jobless rate below 6% later this year. In turn, this will help put pressure on the Federal Reserve to move up short-term interest rates in the first half of 2015.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	May-14	Apr-14	Mar-14	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	6.3	6.3	6.7	6.4	6.6	6.9
Civilian Employment (monthly change in thousands)	145	-73	476	183	229	158
Nonfarm Payrolls (monthly change in thousands)	217	282	203	234	192	198
Construction	6	34	13	18	18	16
Manufacturing	10	4	4	6	9	9
Retail Trade	13	43	29	28	18	26
Finance, Insurance and Real Estate	3	6	0	3	3	4
Professional and Business Services	55	71	47	58	53	53
Education and Health Services	63	39	40	47	33	30
Leisure and Hospitality	39	24	31	31	29	33
Government	1	12	3	5	2	1
Avg. Hourly Earnings: Total Private*	0.2%	0.0%	0.1%	1.5%	1.9%	2.1%
Avg. Weekly Hours: Total Private	34.5	34.5	34.5	34.5	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.3%	0.7%	4.9%	2.0%	2.1%

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