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May Employment Report

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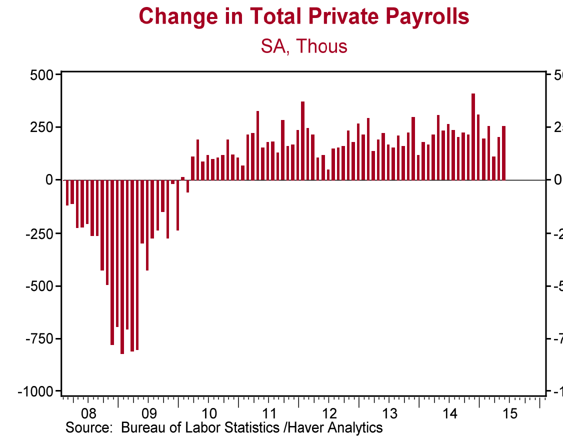
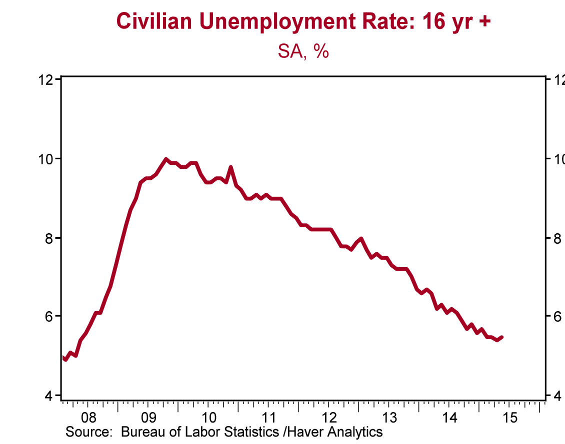
- Nonfarm payrolls increased 280,000 in May, beating the consensus expected 226,000. Including revisions to prior months, nonfarm payrolls increased 312,000.
- Private sector payrolls increased 262,000 in May, while March and April were revised up by a combined 16,000. The largest gains were for education & health services (+74,000), professional & business services (+63,000, including temps), leisure & hospitality (+57,000), and retail (+31,000). Manufacturing payrolls rose 7,000 while government increased 18,000.
- The unemployment rate ticked up to 5.5% (5.508% unrounded in May versus 5.443% unrounded in April).
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – increased 0.3% in May and are up 2.3% versus a year ago.



Implications: Today's report on the labor market shows why the chance of a rate hike in June shouldn't be casually dismissed. The month of May had more jobs, higher wages, and more adults participating in the labor market, either working or looking for work. Nonfarm payrolls grew 280,000 in May, beating consensus expectations. This is the 63rd month in a row with growth in private payrolls, the longest streak since at least the late 1930s. Meanwhile, civilian employment, an alternative measure of jobs that includes small business start-ups, increased 272,000. In spite of the gain in jobs, the unemployment rate ticked up to 5.5%, but did so because the labor force expanded by 397,000, a good sign for future hiring. As a result, at 62.9% the labor force participation rate is at the high end of the range it's been during the past 14 months. This signals that the cyclical strength of the economy is starting to offset the negative effects on the labor force of aging baby boomers, overly generous student aid, and easily available disability benefits. The details of today's report were also solid. Average hourly earnings increased 0.3% in May and are up 2.3% in the past year. Combined with the 2.6% increase in hours worked in the past year, workers' total cash earnings are up 4.9%, more than enough for consumers to increase their spending. In addition, the median duration of unemployment fell to 11.6 weeks, the lowest so far in the recovery. To put this in perspective, the median duration was 17.0 weeks at the end of 2013, which shows what a difference it made when Congress ended extended unemployment benefits at the beginning of 2014. The labor market would be much better off with better government policy, such as lower tax rates and less government spending and regulation, but it continues to improve and looks set to continue on that path. As far as the Federal Reserve is concerned, remember that the Fed thinks the unemployment rate should average about 5.1% over the long run and the jobless rate looks like it will be close to that by the end of the year and head even lower in 2016, due to the lagged effects of loose monetary policy. We believe Fed chief Janet Yellen is well aware of this and that the bar for starting on the gradual path to lifting rates is lower than the market assumes.



Employment Report *All Data Seasonally Adjusted*	May-15	Apr-15	Mar-15	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**5.5**	5.4	5.5	5.5	5.5	5.8
Civilian Employment (monthly change in thousands)	**272**	192	34	166	191	220
Nonfarm Payrolls (monthly change in thousands)	**280**	221	119	207	236	255
Construction	**17**	35	-12	13	26	23
Manufacturing	**7**	1	6	5	9	15
Retail Trade	**31**	13	32	25	22	26
Finance, Insurance and Real Estate	**13**	8	13	11	12	13
Professional and Business Services	**63**	66	39	56	52	56
Education and Health Services	**74**	64	42	60	56	49
Leisure and Hospitality	**57**	10	6	24	36	37
Government	**18**	15	2	12	8	8
*Avg. Hourly Earnings: Total Private**	**0.3%**	0.1%	0.3%	2.9%	2.3%	2.3%
Avg. Weekly Hours: Total Private	**34.5**	34.5	34.5	34.5	34.6	34.5
*Index of Aggregate Weekly Hours: Total Private**	**0.3%**	0.1%	-0.2%	0.8%	1.8%	2.6%

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