

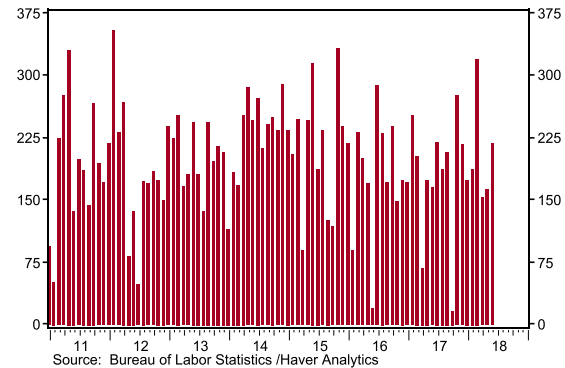
May Employment Report

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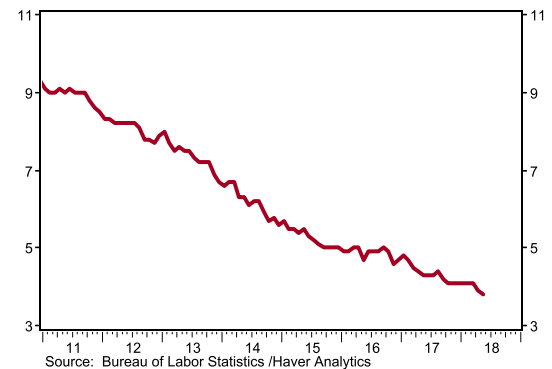
- Nonfarm payrolls rose 223,000 in May versus a consensus expected 190,000. Including revisions to March/April, nonfarm payrolls increased 238,000.
- Private sector payrolls rose 218,000 in May and revisions to prior months added an additional 12,000. The largest increases in May were for retail (+31,000), professional & business services (+31,000, including temps), health care (+29,000), and construction (+25,000). Government rose 5,000.
- The unemployment rate declined to 3.8% in May from 3.9% in April.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in May and are up 2.7% versus a year ago.

Implications: The US labor market got stronger across the board in May. Nonfarm payrolls rose 223,000 for the month, beating the consensus expected 190,000. Meanwhile, civilian employment, an alternative measure of jobs that includes small business start-ups, rose 293,000. In the past year, nonfarm payrolls are up 197,000 per month while civilian employment is up 191,000, both signaling a robust trend in job creation. As a result of continued strength in jobs, the unemployment rate dropped to 3.8% in May, tying the lowest level since 1969. By the end of 2019, we project the jobless rate will be 3.2%, which would be the lowest since 1953. It's now possible that, by 2020, the jobless rate will fall below 3%. Yes, the participation rate slipped to 62.7% in May, but the participation rate has been hovering between 62.3% and 63.1% since late 2013, so the report for May is right smack in the middle of the recent trend, with cyclical strength in the labor market offsetting the downward pressure on participation from the aging of the Baby Boom generation. Perhaps the best news in today's report was a 0.3% increase in average hourly wages, which are now up 2.7% from a year ago. Total hours worked rose 0.2% in May and are up 2.1% from a year ago. As a result, total earnings - which combine the total number of hours worked and average hourly earnings - are up a respectable 4.9% in the past year, more than enough to keep pushing consumers' purchasing power higher. Moreover, this gain doesn't include extra earnings from irregular bonuses and commissions, like those paid out after the tax cut was passed. Back in March, the Federal Reserve projected the jobless rate would average 3.8% in the last quarter of this year. Now that the jobless rate is already 3.8% and down half a percentage point from a year ago, we think a number like 3.6% is more likely and 3.5% is a reasonable guess, as well. As a result, look for the Fed's forecast for the unemployment rate to drop when the new set of projections is released on June 13, along with upward projections for both real GDP growth and inflation. This is why we're still confident the Fed will raise rates a total of four times this year even though the futures market in federal funds puts the odds of four rate hikes or more at about 45%.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	May-18	Apr-18	Mar-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	3.8	3.9	4.1	3.9	4.0	4.1
Civilian Employment (monthly change in thousands)	293	3	-37	86	207	191
Nonfarm Payrolls (monthly change in thousands)	223	159	155	179	202	197
Construction	25	21	-3	14	30	24
Manufacturing	18	25	21	21	26	22
Retail Trade	31	9	11	17	14	10
Finance, Insurance and Real Estate	8	3	5	5	9	10
Professional and Business Services	31	43	41	38	41	40
Education and Health Services	39	33	29	34	36	37
Leisure and Hospitality	21	12	2	12	18	22
Government	5	-3	2	1	-1	2
Avg. Hourly Earnings: Total Private*	0.3%	0.1%	0.2%	2.7%	2.9%	2.7%
Avg. Weekly Hours: Total Private	34.5	34.5	34.5	34.5	34.5	34.4
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.1%	0.2%	1.8%	2.0%	2.1%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized