

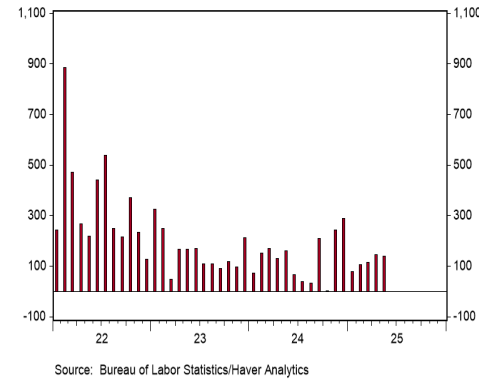
May Employment Report

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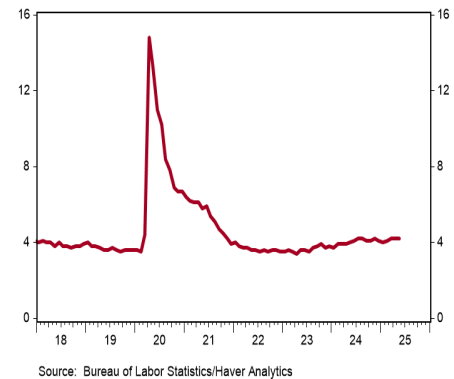
- Nonfarm payrolls increased 139,000 in May, beating the consensus expected 126,000. Payroll gains for March and April were revised down by a total of 95,000, resulting in a net gain, including revisions, of 44,000.
- Private sector payrolls rose 140,000 in May but were revised down by 77,000 in prior months. The largest gains in May were education and health services (87,000) as well as leisure & hospitality (48,000). Manufacturing declined 8,000 while government slipped 1,000.
- The unemployment rate remained unchanged at 4.2% in May.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.4% in May and are up 3.9% versus a year ago. Aggregate hours increased 0.1% in May and are up 1.1% from a year ago.

Implications: The headline payroll number beat consensus expectations slightly, but the totality of today's report on the labor market shows a mixed bag. Nonfarm payrolls grew 139,000 in May versus a consensus expected 126,000. However, payrolls were revised down an unusually large 95,000 for the prior two months, leaving the net gain, including revisions, at a tepid 44,000. We like to follow payrolls excluding three sectors: government, education & health services, and leisure & hospitality, all of which are heavily influenced by government spending and regulation (that includes COVID lockdowns and re-openings for leisure & hospitality). This measure of "core payrolls" increased only 5,000 in May and is up only a grand total of 26,000 in the past three months. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups (but is volatile on a month-to-month basis) dropped 696,000 in May. Given that decline, why did the unemployment rate remain unchanged at 4.2%? Because the labor force (people who are either working or looking for work), fell 625,000. In the past four months the labor force is down 234,000, but with the native-born labor force up while the foreign-born labor force is down, a potential sign of the new Administration's efforts against illegal immigrants. Another sign of the new Administration is that excluding postal workers and census-related jobs, federal payrolls declined by 16,000 in May, the largest drop for any month in the past twenty years. Compared to January, this measure of federal jobs is down 47,000, the largest four-month drop since the 1990s. Long-term, reducing the size of government should help create more jobs in the private sector. The best news for workers in May was that average hourly earnings rose 0.4% and are up 3.9% from a year ago. Unfortunately, this may help the Federal Reserve justify postponing any rate cuts until later this year. In the meantime, the share of unemployed workers who voluntarily left (or "quit") their prior job dropped to 9.8% in May, the lowest level in four years and much lower than the 13.2% that prevailed in January. The greater reluctance to leave a job without another job lined up suggests more anxiety on the part of workers about the near-term future. We think that anxiety is warranted in spite of what is likely to be a strong second quarter for real GDP growth. The (slight) fall of output in the first quarter and then the surge in Q2 is due to tariff policy, not a real bust-boom cycle.

All Employees: Total Private Industries
Change - Period to Period SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report All Data Seasonally Adjusted	May-25	Apr-25	Mar-25	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.2	4.2	4.2	4.2	4.1	4.1
Civilian Employment (monthly change in thousands)	-696	461	201	-11	348	176
Nonfarm Payrolls (monthly change in thousands)	139	147	120	135	157	144
Construction	4	7	5	5	7	11
Manufacturing	-8	5	1	-1	-2	-7
Retail Trade	-7	-3	16	2	12	2
Finance, Insurance and Real Estate	13	3	3	6	10	8
Professional and Business Services	-18	10	-11	-6	-1	-7
Education and Health Services	87	100	65	84	77	77
Leisure and Hospitality	48	29	45	41	20	22
Government	-1	1	6	2	12	23
Avg. Hourly Earnings: Total Private*	0.4%	0.2%	0.3%	3.8%	3.6%	3.9%
Avg. Weekly Hours: Total Private	34.3	34.3	34.3	34.3	34.2	34.3
Index of Aggregate Weekly Hours: Total Private*	0.1%	0.2%	0.3%	2.4%	1.4%	1.1%

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