

## U.S. Employment (May)

### Spring Break

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**Bottom Line:** American companies nearly hit the hiring brakes in May as trade tensions heated up. If this is the start of a new worrisome trend, the Fed will take action.

**Nonfarm payrolls rose 75,000 in May**, a good 100k shy of market expectations. Piling on, the prior two monthly gains were knocked down by a combined 75k. This lowered the 3-month trend to 151k from 198k in the previous similar period. Though not a disaster at this late stage of the cycle, especially given worker shortages, the trend in hiring is clearly slowing. Retailers continue to cut staff, probably more due to online competition than softer consumer spending. Factories, which are on the front lines of the trade war and have cut production this year, are hiring only modestly. Governments cut staff by 15k in May, so the private sector figure was a little better than the headline (90k).

**The jobless rate held at a near half-century low of 3.6%** amid a moderate-sized 113k advance in household-survey jobs and a steady participation rate. The more all-encompassing rate (U-6) actually dipped to a new cycle-low of 7.1%, suggesting ebbing slack in labour markets. Not that this is generating much wage or price pressure. **Average hourly earnings rose a lukewarm 0.2%**, shaving the yearly rate to 3.1%...not nearly enough to fan inflation (especially with unit labour costs outright falling in the past year to Q1).

**Aggregate work hours advanced just 0.1%** after falling 0.2% the prior month. We will need continued strong productivity gains to hit our 1.3% call for Q2 GDP growth (annualized).

Our **jobs scorecard** gives the May report a failing grade, the first since last August.

The **Fed** won't react to one report, even one as important as payrolls. But given the broadening trade war, easing labour cost pressures (despite a tight labour market) and already-low inflation, it won't take much more weakness in employment, in particular, to spur a rate cut. Steady job growth is a must to keep the economy's biggest driver, the consumer, in a spending mood, the expansion rolling and inflation on target.



Employment						
United States (change in thousands)						
		May	Apr	Mar	3-mo.	12-mo.
					(average change)	
Nonfarm Payrolls		75	224	153	151	196
Private Sector		90	205	153	149	189
Manufacturing		3	5	-3	2	15
Construction		4	30	15	16	18
Retail Trade		-8	-14	-15	-12	-6
Avg. Hourly Earnings	(% chng)	0.2	0.2	0.2	2.5 <sup>1</sup>	3.1 <sup>2</sup>
Private Workweek	(hrs)	34.4	34.4	34.5	34.4 <sup>3</sup>	34.5 <sup>4</sup>
Mfg. Workweek	(hrs)	41.6	41.6	41.7	41.8 <sup>3</sup>	42.0 <sup>4</sup>
Aggr. Hours Worked	(% chng)	0.1	-0.2	0.5	1.5 <sup>1</sup>	1.5 <sup>2</sup>
Unemployment Rate	(%)	3.6	3.6	3.8	3.8 <sup>3</sup>	3.8 <sup>4</sup>
Total Unemployment Rate	(%)	7.1	7.3	7.3	7.3 <sup>3</sup>	7.7 <sup>4</sup>
Avg. Duration of Unemp.	(wks)	24.1	22.9	22.2	21.7 <sup>3</sup>	21.3 <sup>4</sup>
Household Employment		113	-103	-201	-64	102

<sup>1</sup> (3-mo. % change : a.r.)    <sup>2</sup> (12-mo. % change)    <sup>3</sup> (3 mo. ago)    <sup>4</sup> (12 mo. ago)

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