Comerica Economic Alert

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June 7, 2019

May 2019 U.S. Employment

Weaker-Than-Expected Job Growth in May Puts Pressure on the Fed

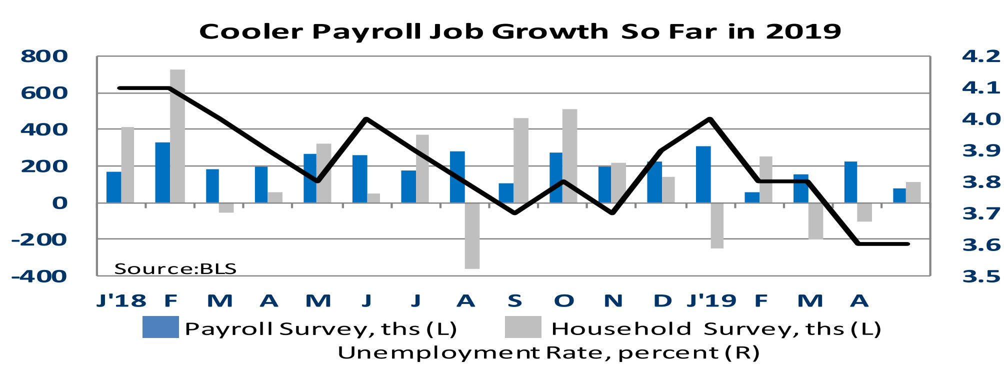
- Payroll Employment increased by just 75,000 jobs in May.
- The Unemployment Rate for May was unchanged at 3.6 percent.
- Average Hourly Earnings gained 0.2 percent in May and were up 3.1 percent for the year.
- The Average Workweek was unchanged at 34.4 hours.

The official Bureau of Labor Statistics job count for May showed a weaker-than-expected gain of 75,000 jobs for the month. Today's official jobs numbers come on the heels of the weak ADP Employment Report, issued on Wednesday, that showed a gain of just 27,000 net new private-sector jobs for the month. The unemployment rate remained at 3.6 percent for the month. Average hourly earnings were up a weak-to-moderate 0.2 percent in May and were up 3.1 percent over the previous 12 months. The tepid gain in wages reinforces the interpretation of the soft payroll numbers. The average workweek was unchanged at 34.4 hours. Revisions to March and April payrolls were negative, totaling -75,000 jobs for the two months.

Today's job report is an important data point for the Federal Reserve heading into the upcoming FOMC meeting over June 18/19. As is often the case, the data is not conclusively good, nor conclusively bad. But it is bad enough to get the Fed focused on preparing for an eventual rate cut. Other recent employment-related data has been solid, including unemployment insurance claims through May and the May ISM surveys. Still, the weak ADP number and the weaker-than-expected BLS number for May, combined with the sizeable negative revisions for March and April payrolls are important considerations for the Fed. We will be issuing our June U.S. economic and interest rates forecasts on Monday. We expect to show at least one fed funds rate cut for this year, and possibly more.

The establishment data showed soft numbers in several smaller sectors. Mining and logging gained 1,000 net new jobs in May. Construction was up by just 4,000 jobs, which is weak. Manufacturing gained 3,000 jobs in May on net, weaker than recent gains. Wholesale trade employment was up by a solid 7,100. Retail trade showed a loss of 7,600 jobs. Transportation and warehousing was little changed, down 200 jobs in May. Information services gave up 5,000 jobs. Financials services was soft, gaining 2,000 jobs. Professional and business services posted a moderate gain of 33,000 net new jobs for the month. Education and healthcare also posted a moderate gain, up 27,000 jobs. Leisure and hospitality posted a solid gain of 26,000 jobs in May. Government employment was a wildcard. It declined by 15,000 jobs in May. Heading into the 2020 Census, we expect to see a temporary surge in government hiring. Prior to the 2010 Census, there was a surge of about 100,000 jobs in the spring of 2009, related to the 2010 Census. We have not yet seen a similarly timed surge for the upcoming Census. During the summer of 2010, government hiring surged again, by nearly 500,000 jobs for just a few months. This brought the unemployment rate down from about 10 percent to about 9.5 percent. We expect to see a similar surge in temporary government jobs next summer. But it will be very interesting to see if the hiring level is as strong as it was in the past. This is because the unemployment rate is so much lower now, 3.6 percent versus 10 percent. The federal government may have trouble finding enough temporary workers in the current very tight labor market.

Market Reaction: U.S. equity markets were up after the open. The 10-Year T-bond yield is down to 2.06 percent. NYMEX crude oil is up to $53.46/barrel. Natural gas futures are down to $2.32/mmbtu.



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