US: SOLID JOB GROWTH RETURNS IN JUNE

"The U.S. June Employment Report was strong. Nonfarm payroll growth bounced back and beat expectations, the unemployment rate increased for a good reason - the first increase in the labor force participation rate since January - aggregate hours worked increased and average hourly earnings continued to rise at a moderate pace. Despite the increased global and trade uncertainties, the U.S. domestic economy and labor market are in decent shape:

- U.S. establishments added a net new 224k jobs in June (consensus: 162k) and back revisions totaled -11k (May: -3k to 72k, April: -8k to 216k), bringing the three-month ma and the six-month ma to 171k and 172k, respectively, pointing to a moderate deceleration in trend job growth from 2018 (Chart 1). State and local government employment jumped by 31k, the largest increase since last August.

- The unemployment rate increased to 3.7% from 3.6% as the Household Survey reported a 335k increase in the labor force, a 247k increase in employment and an 87k increase in the level of unemployment (Chart 2).

- Average hourly earnings increased by 0.2% m/m leaving the yr/yr change at 3.1% (Chart 3). Earnings growth has been stuck in a 3.1-3.4% range since last fall, providing more evidence of remaining labor market slack despite the low unemployment rate. Real average hourly earnings growth likely remained above 1% in June, because of low inflation.

The strong rebound in job growth in June is encouraging, and, we suspect that the rebound would have been even larger were it not for the Trump Administration’s unexpected tariff threats on imports from Mexico in early June that probably made some firms hesitant to proceed with hiring plans. Continued solid job growth bodes well for consumption growth, which is the primary driver of U.S. GDP growth. We believe underlying job growth is closer to 150k than it is to 224k, but it is obvious that the potential labor supply is larger and more elastic than commonly assumed. There is remaining slack in the labor market.

Note that monthly job growth of -110k is sufficient to keep the unemployment rate at 3.7%, assuming an unchanged labor force participation rate.

The Household Survey was solid in June. The overall labor force participation rate increased for the first time since January to 62.9% from 62.8% (Chart 4). The prime working-age (25-54 yrs.) participation rate increased to 82.2% from 82.1%, bringing its 2019 average to 82.4%, already well above its 2018 average (82.0%). A solid economy, robust labor demand and optimistic household perceptions of labor markets continue to draw persons off the sidelines. The surge in voluntary job quits reflects the strong household confidence in job-finding prospects (Chart 5).

The goods-producing sector logged one of its best hiring months this year, adding 37k jobs. Manufacturing employment defied expectations rising by a solid 17k, despite the marked deterioration in manufacturing sentiment in June, the U.S. and global industrial slump, and trade-related uncertainties. Construction employment increased by 21k, consistent with the broadly more positive data on the housing sector. Mining employment declined by 1k.

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Service sector employment increased by 154k in June, more than doubling its below-trend 72k increase in May. The transportation and warehousing (June: +24k, May: +3k), professional and business services (June: +51k, May: +24k) and health care and social assistance sectors (June: +51k, May: +26k) sectors are responsible for the rebound. Importantly, temporary help services employment which is usually the first to decline before economic downturn, increased by 4k in June and has increased by 26k since June 2018 (Chart 6).

Aggregate hours worked increased by 0.2% m/m. The aggregate weekly payrolls index, which serves as a proxy for total income - combines average hourly earnings, average weekly hours and employment - increased by 0.4% m/m, leaving its yr/yr change at 4.7%. This suggests that consumption growth likely remained healthy in June (Chart 7).

We still expect the Fed to proceed with its “insurance rate cut” at the July 30-31 FOMC meeting (Fed to lose “patience” and cut rates this year, June 6, 2019). The solid June Employment Report supports our expectation for a 25bp rate cut in July rather than a 50bp cut.

Chart 1: Change in Total Nonfarm Employment

Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Unemployment Rate

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 3: Average Hourly Earnings for Total Private Industries (year-over-year, %)

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Overall Labor Force Participation Rate

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 5: Voluntary Job Leavers as Share of Total Unemployed

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 6: Temporary Help Services Employment (year-over-year)

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 7: Aggregate Weekly Payrolls Index and Consumption (year-over-year, %)

Sources: BLS, BEA/Haver

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