ECONOMIC UPDATE

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June Employment Report: Broad Based Job Gains Coming At A Faster Pace

- Nonfarm employment rose by 288,000 jobs in June; prior estimates for April/May were revised up by a net 29,000 jobs.
- Average hourly earnings rose by 0.2 percent, with aggregate private sector earnings up 0.5 percent (up 4.1 percent year-over-year).
- The unemployment rate fell to 6.1 percent (6.084 percent unrounded); the broader U6 measure fell to 12.1 percent.

As with holiday fireworks, sometimes with the monthly employment report instead of getting sparkle and light you simply get a dud. Happily, the June employment report was more of the former, with total nonfarm employment rising by 288,000 jobs and the unemployment rate falling to 6.1 percent. Revisions to previous estimates for April and May were revised up by a net 29,000 jobs for the two-month period, and job growth continues to be increasingly broad based across private sector industries. Still, there are some soft spots to what is an overall solid report – the number of people working part-time for economic reasons rose to 7.544 million, up 275,000 from May, the typical annual inflow of younger adults into the job market was the smallest since 2010, and local government payrolls were artificially boosted by seasonal adjustment issues stemming from a later than normal end to the school year in locales impacted by this year's harsh winter weather. All in all, however, the June employment brings evidence of further improvement in the labor market, and the past few months collectively show the pace of that improvement is accelerating.

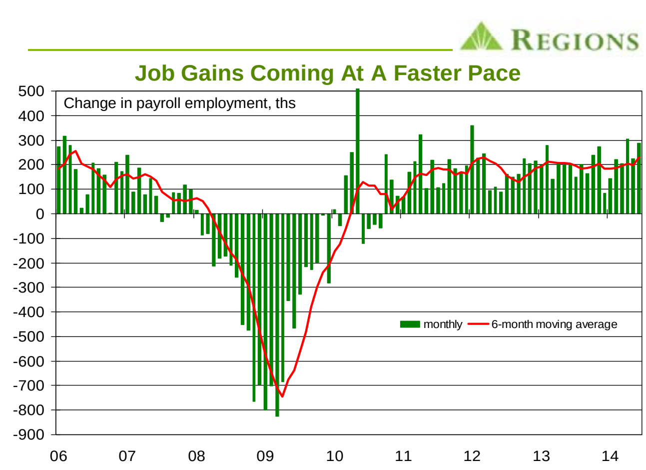
The goods producing industries added 26,000 jobs in June, lower than we had looked for thanks to what remain smallish increases in construction payrolls. Total manufacturing employment rose by 16,000 but the dichotomy between durable goods industries – up 17,000 jobs – and nondurable goods industries – down 1,000 jobs – remains in place. Job gains across durable goods industries were paced by motor vehicles, machinery, and computer equipment. Private sector service industries added 236,000 jobs in June, led by business & professional services, retail trade, leisure & hospitality services, and health care.

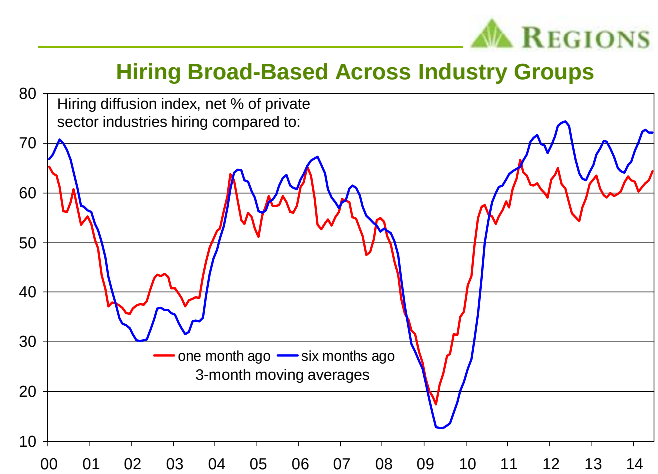
One underlying positive we have been pointing to is what has been exceptionally broad based job growth across the private sector, with the one-month hiring diffusion index rising to 64.8 percent and the six-month diffusion index rising to 72.9 percent (note the chart below shows 3-month moving averages). As measured by the hiring diffusion index, hiring has been fairly broad-based since the recovery began – one has to go back to the lengthy and broad based expansion of the 1990s to find job growth as widespread as it has been over the past few years. The problem of course during the current recovery is it has been the intensity of hiring, not the breadth, that has been lacking, though with job growth having been north of 200,000 jobs per month over the past five months, that appears to be changing.

Aggregate private sector earnings rose by 0.5 percent in June, which translates into an over-the-year increase of 4.1 percent, and earnings were revised slightly higher for both April and May. For Q2 as a whole, aggregate private sector earnings rose at an annualized rate of 5.6 percent, a significant acceleration from Q1's pace which itself was a marked improvement over the prior quarter. This is a function of gains in employment pushing aggregate private sector hours worked up at an annualized rate of 3.7 percent in Q2. Still, growth in aggregate private sector earnings remains shy of where it would be in a fully healthy labor market, with faster growth in average hourly earnings the missing link to this faster growth. Growth in hourly earnings will be the key metric to watch over coming months as an indicator of the degree to which labor market slack is being pared down. Note the growth in hours worked is consistent with real GDP growth of between 3.5 and 4.0 percent for Q2, barring a complete collapse in worker productivity.

The number of younger entrants into the labor force, and the corresponding gain in employment, was the smallest since 2010. With seasonal adjustment factors looking for much larger gains, this was the primary factor behind the anemic increase in the labor force. This helped push down the unemployment rate along with increases in household employment that were spread amongst those 25 and older.

On the whole, the June employment report is a solid report, and over the past twelve months the economy has added 2.5 million. So, while not losing sight of the fact that there remains room for improvement, it is perhaps time to focus more on the growing strength of the labor market.





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