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Economics Group

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Solid Job Gains Continue to Support Better Income Growth

For June, 288,000 jobs were added to the economy, with broad-based gains in manufacturing, construction and services. Meanwhile, the unemployment rate fell to 6.1 percent.

Despite GDP, Widespread Job Gains Suggest Sustained Growth

Once again we received another piece of the economic puzzle that indicates economic growth is far better than the negative Q1 GDP report indicates. Whereas trade was a key detractor from first quarter GDP, today's employment report showed that the domestic economy is improving. Recent trade data has been disappointing, however, today's report showed the trade deficit narrowed to $44.4 billion, while last month's figure was revised to a smaller deficit.

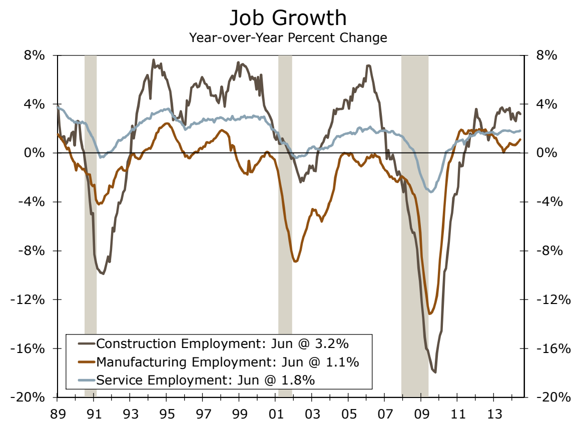
Today's strong report of a 288,000-job gain is consistent with a similar reading from the ADP employment report, which showed gains for small, medium and large employers. Job growth was broad based across industry sectors as well, with improvement in manufacturing, construction and services (top graph). Manufacturing payrolls rose by 16,000 jobs and average weekly hours held steady at 34.5, which indicates industrial production should improve in the second quarter. Across the service sector, professional & business services added 67,000 jobs, which puts employment in the industry up 3.5 percent over the past year compared to a rise of 1.8 percent for total employment. The leisure & hospitality, retail trade and health services industries all added more than 30,000 jobs. Although the average workweek was unchanged, the strong pace of hiring has led the index of aggregate hours worked in the economy to rise at a 4.4 percent annualized rate over the prior three months, which supports our outlook for better GDP growth.

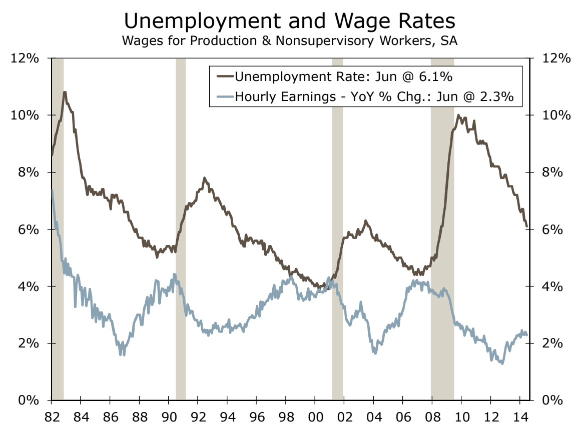
Household Picture Continues to Slowly Improve

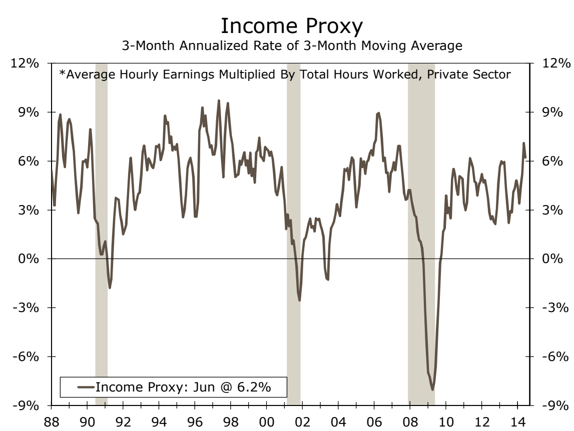
Data from the household survey also showed a strengthening labor market. The unemployment rate fell to 6.1 percent amid strong household employment growth (middle graph). The total labor force also ticked up, leaving the participation rate flat at 62.8 percent. Although the participation rate looks unlikely to rebound in a meaningful way, the employment-population ratio rose to its highest level since 2009.

Wages Grind Higher

As the unemployment rate has continued to fall and CPI inflation has picked up in recent months, average hourly earnings have undergone increased scrutiny from Fed officials. In June, average hourly earnings rose 0.25 percent compared to an average of 0.16 percent over the past year. On a year-ago basis, wages are up 2.0 percent, but the comparison should become more flattering next month as a 0.4 percent rise last June rolls off the equation. The combination of the broad-based gains in jobs and the improved average hourly earnings over last month indicates another gain in the income proxy (bottom graph). Therefore, consumer income growth remains a potential source of an upside surprise to economic growth.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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