ECONOMIC UPDATE
REGIONS
July 2, 2015

June Employment Report: On The Whole, A Disappointing Batch Of Data

- Nonfarm employment rose by 223,000 jobs in June; prior estimates for April and May were revised down by a net 60,000 jobs.
- Average hourly earnings were unchanged, with aggregate private sector earnings up by 0.2 percent (up 4.51 percent year-over-year).
- The unemployment rate fell to 5.3 percent (5.284 percent unrounded); the broader U6 measure fell to 10.5 percent.

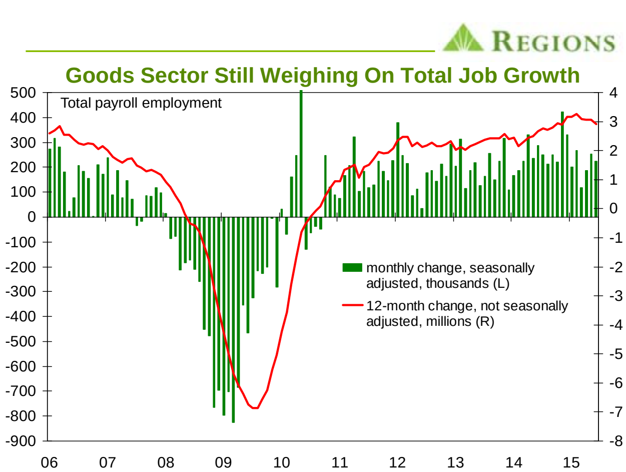
Total nonfarm employment rose by 223,000 jobs in June, in line with expectations, with the private sector accounting for all of June's job gains as government payrolls were flat. The unemployment rate fell to 5.3 percent from 5.5 percent in May. Still, despite job growth coming in as anticipated and the drop in the jobless rate, the June employment report is, on the whole, disappointing. The decline in the unemployment rate was due to a decline in the labor force, revisions to prior estimates for April and May were negative (down by a net 60,000 jobs), and average hourly earnings were unchanged, leaving year-on-year growth at the same middling 2.0 percent that has prevailed for the past four years. The broader message from the labor market remains the same – further progress, but with much longer to go before the labor market could be considered fully healthy.

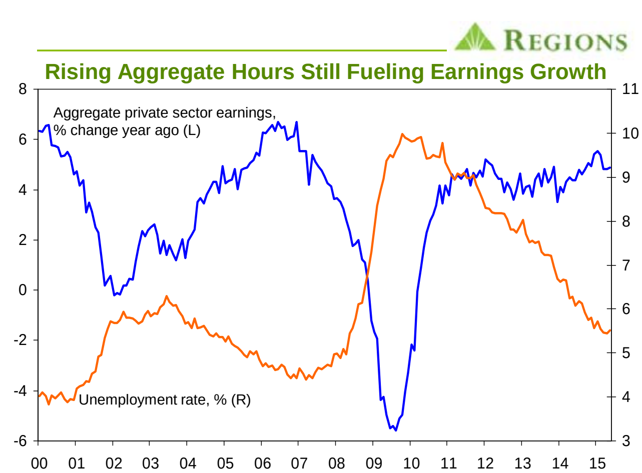
The total labor force is reported to have declined by 432,000 persons on a seasonally adjusted basis. As we routinely note, the household survey data are inherently volatile on a month-to-month basis and one should avoid drawing sweeping conclusions based on any given month. For instance, males accounted for almost all of the reported decline in the labor force in June, with a decline of 402,000 males with two-thirds of this coming from males aged 20-to-24. Additionally, we noted in our weekly *Economic Preview* we expected a high degree of noise in the June data stemming from a smaller than normal increase in the number of 16-to-19 year-olds entering the labor force in search of summer jobs. This is indeed what the data show, with the not seasonally adjusted change in this age cohort at 1.030 million persons, the smallest June increase since 2010. As the seasonal adjustment factors were looking for a larger increase they effectively overcompensated, pushing down the reported seasonally adjusted figure. To be sure, older age cohorts didn't exactly come rushing into the labor force in large numbers in June but, again, we point to the inherent volatility in the monthly data. On an over-the-year basis, the percentage increase in the seasonally adjusted labor force in June is in line with the recent trend.

Other data points from the household survey offer encouragement, with the number of those working part-time for economic reasons and the number of long-term unemployed both falling. The pool of "underutilized labor resources" – the sum of the unemployed, those working part-time for economic reasons, and those marginally attached to the labor force – fell by 471,000. As this group comprises the numerator in the U6 calculation, the broader measure of unemployment and underemployment fell to 10.5 percent, the lowest since July 2008.

As has been the case for the past few months the goods producing industries added little to overall job growth, with construction payrolls reported flat in June (which looks out of place with recent data on commercial and residential construction activity). Payrolls in mining fell again but the rate of job losses is abating, while manufacturing payrolls were up by just 4,000 jobs. Private sector services added 222,000 jobs in June, below May's increase but still above the average over the prior 12 months.

The print on average hourly earnings reflects the mix of jobs, as does the average length of the workweek, which held at 34.5 hours. When combined with the change in private sector payrolls, the data on hours and earnings yield just a 0.2 percent increase in aggregate private sector earnings in June, for a year-on-year increase of 4.5 percent, respectable but slower than the longer-term trend rate. For Q2 as a whole, private sector earnings grew at an annualized rate of 3.3 percent, the slowest such rate since Q3 2012, mainly reflecting the shorter average workweek that prevailed during this year's second quarter. The earnings data are consistent with what remains an elevated degree of labor market slack – though falling sharply in June the pool of underutilized labor resources remains over 3 million higher than would be seen as "normal.' Until this pool has been pared down, hourly earnings growth will remain muted. As such, we hold to our characterization of the labor market – continued progress, but with much further to go.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com