

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

May Employment Report: Labor Supply Constraints Continue To Weigh On Hiring

- › Nonfarm employment rose by 559,000 jobs in May; prior estimates for March/April were revised up by 27,000 jobs
- › Average hourly earnings rose by 0.5 percent while aggregate private sector earnings rose by 0.9 percent
- › The unemployment rate fell to 5.8 percent in May (5.788 percent, unrounded); the broader U6 measure fell to 10.2 percent

Total nonfarm employment rose by 559,000 jobs in May, short of our forecast of 693,000 jobs, with private sector payrolls up by 492,000 jobs and public sector payrolls up by 62,000 jobs. Prior estimates of job growth over March and April were revised up by a net 27,000 jobs for the two-month period. Average hourly earnings rose by 0.5 percent after a 0.7 percent increase in April. That these gains came despite leisure and hospitality services making the largest contributions to job growth is an indication of the extent to which wages in this industry group, easily the lowest of any of the major industry groups, have risen as firms scramble to attract workers amid rapidly rising demand. With the increases in the level employment and average hourly earnings compensating for average weekly hours remaining unchanged, aggregate private sector wage and salary earnings rose by 0.9 percent in May, and on a quarterly average basis are rising at a double-digit annualized rate thus far in Q2. While the unemployment rate fell to 5.8 percent in May, part of this comes from a decline in labor force participation.

As in any given month, the May employment report comes with an element of noise that makes interpreting the data trickier. For instance, the response rate to the May survey of establishments was notably low, particularly compared to the average for the month of May, which holds open the possibility of sizable revision to the initial estimate of May job growth. Additionally, there is considerable seasonal adjustment noise in the data, which held down the estimate of private sector employment while flattering the estimate of public sector employment. For instance, on a seasonally adjusted basis construction payrolls are reported to have declined by 20,000. The unadjusted data, however, show construction payrolls rose by 114,000 jobs, or, by 1.6 percent. This is, however, much smaller than the average May increase, so the seasonal factors basically overcompensated. Conversely, May typically sees declines in the education segments of state and local government, but with the timing of the school year being out of kilter this year we did not see the typical May declines, which resulted in the seasonally adjusted data showing state and local education payrolls rising by 103,000 jobs.

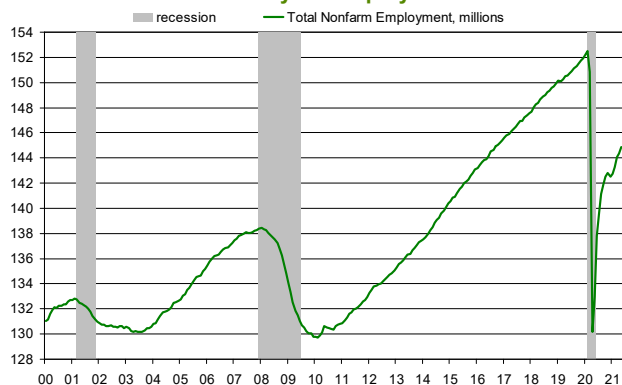
As in April, leisure and hospitality services posted the largest job gain of any industry group in May, with payrolls rising by 292,000 jobs. But, as was also the case in April, this was a smaller increase than expected, and came with a substantial increase in average hourly earnings. Hourly earnings for nonsupervisory workers in leisure and hospitality services rose by 1.2 percent in May, which follows a 2.8 percent increase in April, easily the largest monthly increase on record. Payrolls in manufacturing rose by 23,000 jobs, though this is more than accounted for by motor vehicle producers; after having declined by 37,700 jobs in April, payrolls amongst motor vehicle producers rose by 24,800 jobs in May, though the global chip shortage continues to hamper production and employment.

That labor supply constraints are holding down the pace of hiring seems quite clear, and the decline in labor force participation in May is another sign of this. There is an element of seasonal adjustment noise in the May data, as the size of the influx of younger job seekers reported in the not seasonally adjusted data is much smaller than is typical for the month of May, hence the reported decline in participation amongst those 16-to-19 years old, which more than accounted for the entire decline in the labor force in the seasonally adjusted data. More fundamentally, while many point to expanded unemployment insurance benefits as the primary culprit behind labor supply constraints, there is much more to the story. For instance, female participation remains significantly depressed, and this could remain the case until schools reopen normally in the fall. Another factor, which somehow has managed to escape notice, is that exits from the labor force have picked back up and are closing in on pre-pandemic norms, most of which likely reflects the wave of retirements amongst Baby Boomers and which has much further to run. More simply put, in May entrants into the labor force simply did not keep pace with exits from the labor force, which reflects a host of factors, some less obvious than others as they hide in plain sight.

It is likely that labor supply constraints will ease in the months ahead. In the interim, however, they will weigh on hiring and will support faster wage growth than would otherwise be the case.



Total Payroll Employment



Labor Force Flows: prior month's status before exiting labor force:

