

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.

June Employment Report: Further Progress, But Less Than Headline Number Implies

- Nonfarm employment rose by 850,000 jobs in June; prior estimates for April/May were revised up by 15,000 jobs
- Average hourly earnings rose by 0.3 percent while aggregate private sector earnings rose by 0.6 percent
- The unemployment rate rose to 5.9 percent in June (5.888 percent, unrounded); the broader U6 measure fell to 9.8 percent

Total nonfarm employment rose by 850,000 jobs in June, with private sector payrolls up by 662,000 jobs and public sector payrolls up by 188,000 jobs. The reported increase in public sector payrolls, however, is no more than seasonal adjustment fiction stemming from layoffs in the education segment of state and local government being smaller than is typical for the month of June. This led to a larger increase in total nonfarm payrolls than the increase of 721,000 jobs our forecast anticipated, but private sector job growth was more in line with our forecast of 627,000 jobs. Prior estimates of job growth in April and May were revised up by a net 15,000 jobs for the two-month period. Average hourly earnings rose by 0.3 percent, with an early end to the BLS's June survey period biasing the estimate of hourly earnings lower. The mix of jobs, with leisure and hospitality services again accounting for the bulk of private sector job growth, worked to pull down average weekly hours, while the initial estimate of weekly hours in May was revised lower. The declines in hours worked weighed on growth in aggregate private sector wage and salary earnings, the largest single component of personal income. The household survey data for June are also distorted by seasonal adjustment noise, which held down the seasonally adjusted estimates of the labor force and household employment, with the net result an uptick in the unemployment rate. On the whole, the June employment report reflects further progress on the road back to health for the labor market, though it falls well short of the FOMC's marker of "substantial further progress."

To our point about the reported increase in public sector payrolls, the not seasonally adjusted data show payrolls in the education segment of state and local governments fell by a combined 412,600 jobs in June, but on a percentage change basis, the declines on both the state and local levels are far smaller than is typical for the month of June, reflecting the extent to which education payrolls were held down during the pandemic. With the seasonal adjustment factors geared for larger declines, the seasonally adjusted data are artificially boosted, such that on a seasonally adjusted basis payrolls in the education segment of state and local governments are reported to have risen by 229,700 jobs.

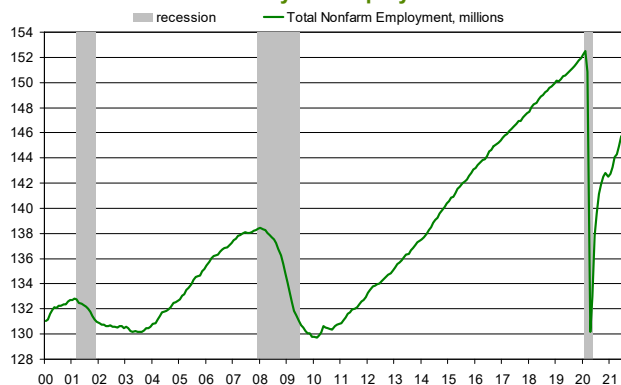
Payrolls in leisure and hospitality services rose by 343,000 jobs in June, meaning that over the past five months payrolls in the broad industry group have risen by a net 1.617 million jobs. It seems clear, however, that job gains would have been even greater were it not for ongoing labor supply issues, which is apparent in what has been notably rapid growth in hourly earnings in leisure and hospitality services. And, even with the run of job growth over the past five months, leisure and hospitality services payrolls remain 2.181 million jobs shy of the pre-pandemic peak. Construction payrolls fell by 7,000 jobs on a seasonally adjusted basis; while the not seasonally adjusted data show construction payrolls rose by 1.4 percent in June, this is smaller than the typical June increase (2.7 percent), hence the reported decline in the seasonally adjusted data. While manufacturing payrolls rose by 15,000 jobs, payrolls amongst motor vehicle producers fell by 12,300 jobs, the second decline in the past three months as the global semiconductor chip shortage continues to wreak havoc on production schedules, and further declines are in store in the July data with some producers shuttering lines for the month.

The not seasonally adjusted household survey data show the smallest June inflow of younger job seekers (16-to-24 year-olds) since 2010, particularly in the 16-19 year-old age cohort, which followed a smaller than normal May inflow. This led to declines in the labor force and in household employment amongst this age cohort in the seasonally adjusted data, which weighed on the aggregate totals. Still, even allowing for this, the reported decline in total household employment comes as a surprise, highlighting the inherent volatility in the household survey data.

As of June, nonfarm payrolls remain 6.764 million jobs below the pre-pandemic peak. Labor supply constraints continue to weigh on job growth, and we don't expect to see meaningful relief on this front until the fall. While this is leading to faster wage growth than would otherwise be the case, the reality is that it is going to take considerable time for employment to return to the pre-pandemic peak. As such, "substantial further progress" will be in the eye of the beholder.



Total Payroll Employment



Change In Nonfarm Payrolls June 2021 Relative To February 2020, millions of jobs

