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## May Employment Report: Broad Based Hiring An Encouraging Sign Of Labor Market Health

- › Nonfarm employment rose by 390,000 jobs in May; prior estimates for March and April were revised down by 22,000 jobs
- › Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.6 percent (up 9.6 percent year-on-year)
- › The unemployment rate was unchanged at 3.6 percent in May (3.620 percent, unrounded); the broader U6 measure rose to 7.1 percent

Total nonfarm employment rose by 390,000 jobs in May, topping both our forecast of 297,000 jobs and the consensus forecast of 320,000 jobs, with private sector payrolls up by 333,000 jobs and public sector payrolls up by 57,000 jobs (a number inflated by seasonal adjustment). Prior estimates of job growth in March and April were revised down by a net 22,000 jobs for the two-month period, the second straight month in which the net revision for the prior two months was to the downside. Average hourly earnings rose by 0.3 percent, splitting the difference between our forecast (0.2 percent) and the consensus forecast (0.4 percent), leaving hourly earnings up 5.2 percent year-on-year, while aggregate private sector wage and salary earnings rose by 0.6 percent, for a year-on-year increase of 9.6 percent. Job growth remained broad based across private sector industry groups in May, though a steep decline in retail trade payrolls stands out even if it does not come as a total surprise. The unemployment rate held at 3.6 percent in May, with an increase in the labor force totally absorbed by higher household employment. While the jobless rate held steady, the broader U6 measure, which also accounts for underemployment, rose to 7.1 percent, marking a second straight monthly increase. This stands out as May's increase was driven by an increase in the number of those working part-time for economic reasons, with a sizable increase in those reporting they worked part-time due to slack business conditions, consistent with other indicators of some slowing in the pace of economic activity.

As of May, the level of nonfarm employment was 822,000 jobs below the pre-pandemic peak. Job growth remained broad based in May, with the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, registering 69.3 percent which, while down from recent months, nonetheless remains above pre-pandemic norms. We put considerable emphasis on the breadth of job growth, both geographically and across industry groups, as an indicator of the durability of growth in the broader economy. An economy not reliant on a few industry groups to fuel growth will have considerably more staying power than one with great reliance on one sector, as was the case leading up to the 2007-09 recession. So, while the pace of job growth

has decelerated, and will likely decelerate further, it is the case that job growth remains broad based across geographies and across industry groups, which is an encouraging sign. That retail trade payrolls fell sharply in May is not too surprising in the wake of the latest round of retail earnings releases, with many retailers reporting that they found themselves with excess labor after having hired aggressively over prior months. So, while some are interpreting May's decline in retail trade payrolls, heavily concentrated amongst general merchandise stores, as a sign of distress amongst U.S. consumers, we don't share that view.

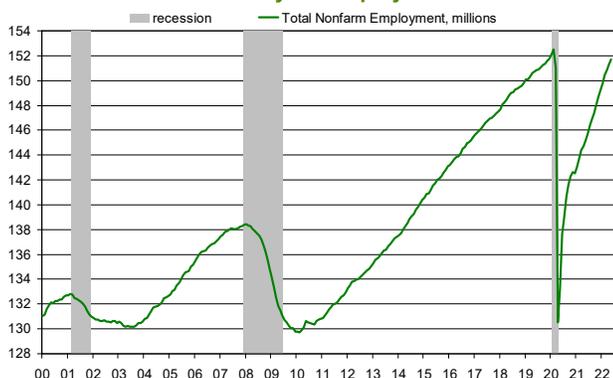
We do think it is worth pointing out that the response rate to the May establishment survey was notably low, at just 63.3 percent, which is the lowest May response rate since 2002. This continues a pattern in place since the onset of the pandemic, and the differential between current and pre-pandemic response rates has actually gotten larger in 2022; were it to hold for the remainder of 2022, the average monthly response rate through May would mark the lowest annual rate since 2005. Why this matters is that a lower response rate from firms leaves a bigger gap for the BLS to fill in with their own estimates, making the initial estimates of job growth, hourly earnings, and weekly hours prone to larger revision.

The labor force participation rate ticked up to 62.3 percent in May, with the entire increase in the labor force accounted for by higher female participation. We have pointed to lower female participation as a main drag on overall participation, and while still well below pre-pandemic norms, rising female participation is nonetheless an important development. It is also interesting that this May saw a smaller than normal influx of younger adults (16-to-24) into the labor force, though the timing of school years can skew the distribution of this influx between May and June, so this is something to watch for in the June data.

While the increase in labor force participation in May is encouraging, the reality is that labor demand remains far ahead of labor supply. The rising incidence of part-time work is an indication of decelerating economic growth, but that hiring remains broad based and the demand for labor remains strong suggest the labor market remains on firm footing.



### Total Payroll Employment



### Job Growth Remains Notably Broad Based

