ECONOMIC UPDATE

REGIONS

June 2, 2023

May Employment Report: The "Yes, But" Employment Report

- Nonfarm employment rose by 339,000 jobs in May; prior estimates for March and April were revised up by a net 93,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.3 percent (up 6.2 percent year-on-year)
- The unemployment rate rose to 3.7 percent in May (3.665 percent, unrounded); the broader U6 measure rose to 6.7 percent

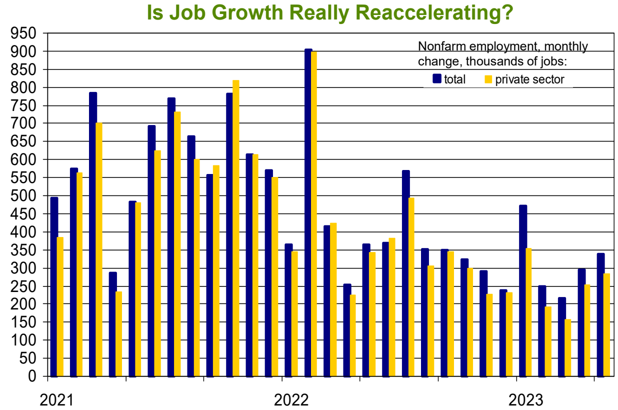
Total nonfarm employment rose by 339,000 jobs in May, blowing away expectations, with private sector payrolls up by 283,000 jobs and public sector payrolls up by 56,000 jobs. Prior estimates of job growth in March and April were revised up by a net 93,000 jobs for the two-month period, quite the contrast from the substantial downward revision to the two months prior aggregate seen in the April employment report. One caveat, however, is that the response rate to the May establishment survey was only 54.7 percent which stands out even in a period in which survey response rates have been notably low and which suggests tempering any reactions to the May headline job growth number until we see what the revised figure looks like a month from now. Moreover, beneath that heady job growth number average weekly hours fell by one-tenth of an hour, and while that may seem a minor detail, it is anything but, as aggregate private sector hours worked declined in May despite the sizable increase in private sector payrolls. It also bears noting that the outsized increase in nonfarm payrolls came in a month in which the level of household employment fell by 310,000 persons. Combined with a modest increase in the size of the labor force, the decline in household employment pushed the unemployment rate up to 3.7 percent in May from 3.4 percent in April. The 0.3 percent increase in average hourly earnings was larger than we had expected, but at the same time there was a downward revision to the original estimate of a 0.5 percent increase in April, with the net result being average hourly earnings are up 4.3 percent year-on-year. While it is not unusual for the monthly employment report, or any economic data report for that matter, to send seemingly contradictory signals, the May employment report does so to a higher than normal degree. That said, the body of labor market data leaves our assessment of the labor market where it has been for the past several months, i.e., while there are signs of cooling labor demand, the labor market is by no means about to roll over.

Our below-consensus forecast for May job growth was in part based on what we expected to be a smaller than normal increase in not seasonally adjusted employment. As it turns out, the 0.59 percent increase in not seasonally adjusted employment lines up with the May average. While unadjusted construction payrolls posted a smaller increase than normal for May, the increase in unadjusted leisure and hospitality services payrolls was slightly larger than normal. One source of significant seasonal adjustment noise is education services, where a decline of over 90,000 jobs in unadjusted payrolls translated into an increase of 22,300 jobs on a seasonally adjusted basis. Hiring was more broadly based in May than had been the case in prior months. The one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, rose to 60.2 percent in May from 58.8 percent in April (revised up from the initial estimate). While payrolls declined in information services and manufacturing, payrolls rose in each of the other broad industry groups, led by education and health services (+97,000), business services (+64,000), and government (+56,000).

The May household survey data are just, well, weird. The BLS's measure of household employment that reconciles with the measure of nonfarm employment shows an increase of 394,000 jobs, quite the contrast from the change in the standard measure of household employment. An increase amongst the 45-to-54 year-old cohort more than accounts for the entire increase in the labor force, and this was the only age cohort which saw an increase in household employment in May. At the same time, there was a much smaller inflow younger adults into the labor force and a much smaller increase in employment amongst this cohort than is typical for May (the smallest May increase since 2010), and these atypically small changes in the unadjusted data carried into the seasonally adjusted data. It could be that a later end to the school year held down the magnitude of the increases in May, but if this is the case the June increases should be larger than typical for the month. It is worth noting that the participation rate amongst the 25-to-54 year-old age cohort, the "prime working age" population, ticked up to 83.4 percent in May, the highest since January 2007, though further, sustained increases in prime-age participation seem unlikely. Just another "yes, but" observation from an employment report full of them.

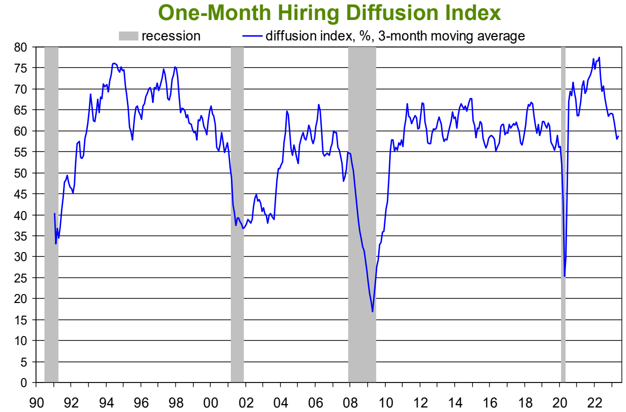
REGIONS

Is Job Growth Really Reaccelerating?



REGIONS

One-Month Hiring Diffusion Index



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