ECONOMIC UPDATE
REGIONS
July 7, 2023

June Employment Report: Labor Market Is Cooling, But To What Degree?

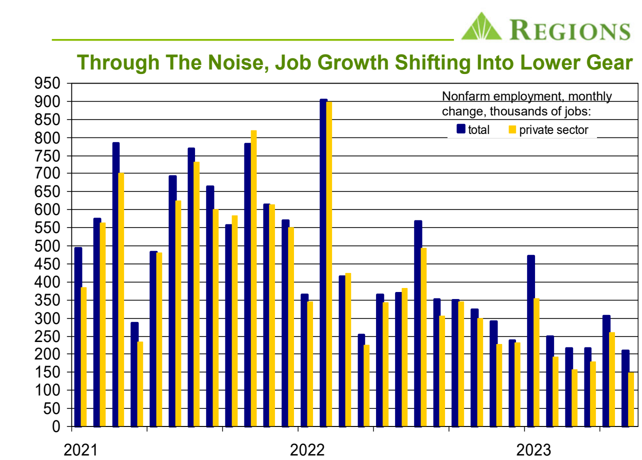
- Nonfarm employment rose by 209,000 jobs in June; prior estimates for April and May were revised down by a net 110,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.8 percent (up 6.3 percent year-on-year)
- The unemployment rate fell to 3.6 percent in June (3.568 percent, unrounded); the broader U6 measure rose to 6.9 percent

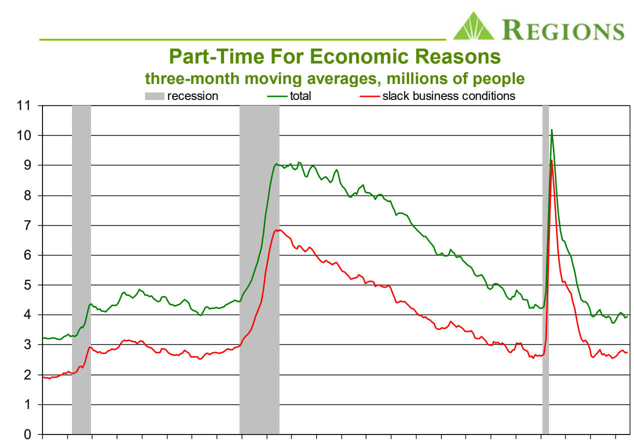
Total nonfarm employment rose by 209,000 jobs in June, a bit closer to our forecast (214,000) than to the consensus forecast (230,000), with private sector payrolls up by 149,000 jobs and public sector payrolls up by 60,000 jobs. Prior estimates of job growth in April and May were revised down by a net 110,000 jobs for the two-month period, though the bigger drop came in the April job growth, not May, now reported to be 306,000 jobs. We still see this as somewhat suspect given the abnormally low initial response rate to the May establishment survey and a below-average secondary response rate. The reported increase in public sector payrolls should be discounted as reported job growth in the education segment of state and local government is nothing more than seasonal adjustment noise. Though the pace of job growth slowed sharply in June, the average length of the private sector workweek ticked up by one-tenth of an hour, providing a powerful boost to growth in aggregate private sector labor earnings. Job growth was less broadly based across private sector industry groups in June, continuing a concerning trend we've been highlighting in recent months. While the unemployment rate fell to 3.6 percent in June, the broader U6 measure, which also accounts for underemployment, rose to 6.9 percent from 6.7 percent in May on a jump in the number of those working part-time for economic reasons. It is also worth noting that on August 23 BLS will release a preliminary estimate of the annual benchmark revision to the establishment survey data, in which the monthly estimates of employment, hours, and earnings are benchmarked to the universe of payroll tax returns. Based on our take of the Quarterly Census on Employment and Wages, drawn from the payroll tax return data, BLS has been significantly overestimating job growth over the past few quarters. Whether or not the June employment report changed anyone's view of labor market conditions, if we're correct on this point the annual benchmark revisions certainly will.

As has been the case over the past several months, health care was a key contributor to overall job growth, with an increase of 41,100 jobs in June. Construction payrolls were up by 23,000 jobs, while payrolls in leisure and hospitality services increased by 21,000 jobs, as did payrolls in business services. Manufacturing employment rose by 7,000 jobs, with job gains amongst producers of transportation equipment more than accounting for the entire increase. On the flip side, June saw payrolls fall in mining and natural resources, transportation and warehousing, retail trade, and wholesale trade, while information services payrolls were unchanged for a second straight month. As noted above, estimates of job growth in the education segment of state and local government were flattered by seasonal adjustment, but what is worth noting is that hiring amongst state and local governments outside of education has picked up over recent months, in part a reflection of infrastructure funding starting to flow downstream.

The number of people working part-time for economic reasons rose by 452,000 persons in June, a notably large increase that was primarily driven by an increase in those working part-time due to slack business conditions. We've been eyeing the latter metric as an indicator of overall economic conditions, the caveat being that this estimate is drawn from the household survey and thus can be volatile on a month-to-month basis. That said, should this number continue to increase in the months ahead, that would be a clear sign of slowing economic growth.

Average hourly earnings rose by 0.4 percent in June, leaving them up 4.4 percent year-on-year, considered by many to be "too hot" for the FOMC's liking. This constant focus on average hourly earnings misses what is a far more relevant point, which is that growth in aggregate private sector earnings has slowed considerably. The 4.4 percent annualized growth rate in aggregate private sector earnings in Q2 is the weakest quarterly performance since the start of the pandemic and to a large degree reflects weakening trends in private sector hours worked. As we routinely note, firms do not manage to hourly earnings, they manage to total labor costs, and using the former as the basis of conclusions about labor market conditions or as the basis of policy decisions can easily lead one astray. It seems clear that the labor market is cooling, and if we are correct about the pending benchmark revisions, the extent to which the labor market has cooled will take many by surprise.





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