

Economic Indicator — June 7, 2024

May Employment: Two Surveys Diverged

Summary

Nonfarm payroll growth bounced back strongly in May, rising 272K in the month relative to the 165K pace that was registered in April. Job growth over the past year has been concentrated in industries that are less cyclically sensitive, and this was once again true in May with employment growth led by health care (+84K), government (+43K) and leisure & hospitality (+42K). Average hourly earnings also topped expectations, rising 0.4% in the month and 4.1% over the past year.

However, the separate household survey was more underwhelming. A 408K decline in employment as measured by the household survey, when paired with a 250K drop in the labor force, pushed the unemployment rate up to 4.0%, its highest reading since January 2022.

On balance, we suspect the truth lies somewhere in between the robust establishment survey and the faltering household survey. We think employment growth is continuing at a solid pace, but there are ample signs that the heat in the labor market over the past few years largely has been removed. Declining job openings, a falling quit rate, narrowing employment growth and decelerating wages all point to a labor market that is coming into better balance. Policymakers will need to see a few slower inflation reports over the summer in order to start cutting rates by the fall, and all eyes now turn to next week's CPI report, to be released on the same day as the conclusion of the FOMC meeting. Our preview of next week's CPI report can be found [here](#).

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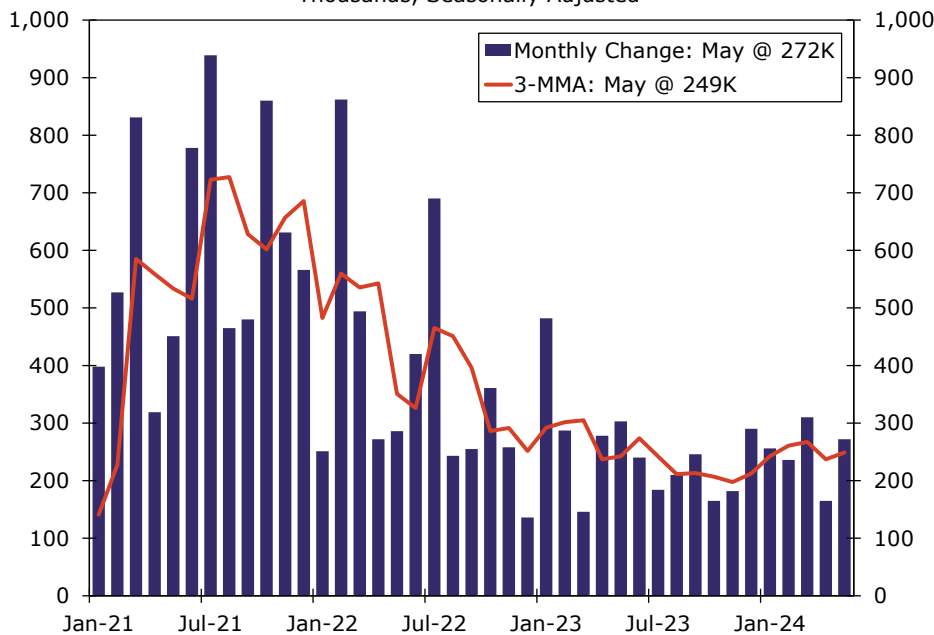
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U.S. Nonfarm Employment Change

Thousands, Seasonally Adjusted

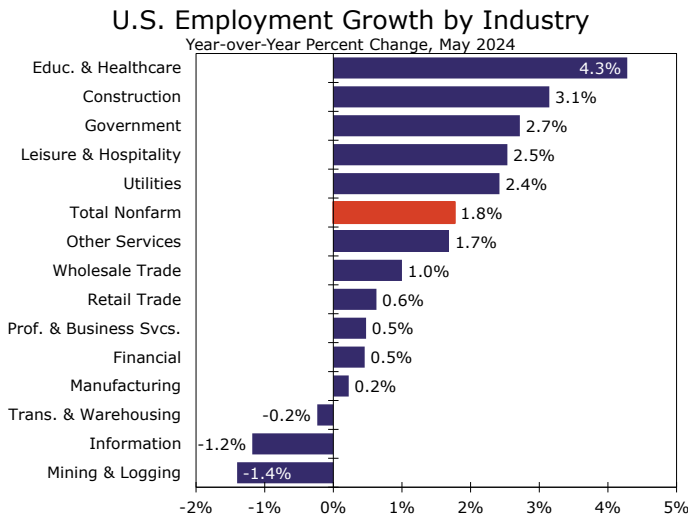


Source: U.S. Department of Labor and Wells Fargo Economics

Headline Job Growth Jumps, but Details Not Quite as Strong

Nonfarm payrolls surprised to the upside in May, rising by 272K in the month compared to a consensus forecast of 180K. Revisions to job growth in the prior two months were modest and lowered employment growth by 15K in total. The industries seeing the largest job gains over the month were health care (+84K), leisure & hospitality (+42K) and government (+43K). Employment growth has been concentrated in less cyclically sensitive industries such as government and health care over the past year (Figure 1). An exception to this is the construction industry, which saw employment rise 21K in May and 251K over the past 12 months. Hiring in the construction sector seems to have powered through the interest rate headwinds via the tailwinds from higher infrastructure spending, booming construction of technology-related manufacturing facilities and still solid single-family home construction.

Figure 1

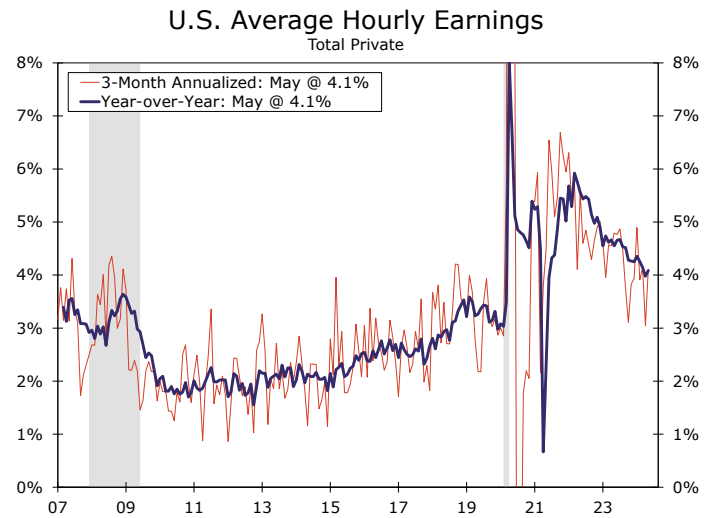


Source: U.S. Department of Labor and Wells Fargo Economics

Average hourly earnings (AHE) also rebounded from a softer reading in April, rising 0.4% in May. This pushed the three-month annualized change in AHE up to 4.1%, in line with the change over the past 12 months (Figure 2). Average hourly earnings growth averaged roughly 3.2% over the 2018-2019 period, suggesting that the current pace of wage growth is about a percentage point faster than what prevailed before the pandemic. AHE can be noisy on a month-to-month basis, and monetary policymakers at the Federal Reserve prefer the Employment Cost Index, which will be released next on July 31. This reading will be important for a potential September rate cut as policymakers assess the extent to which wage growth continues to ease from its post-pandemic high.

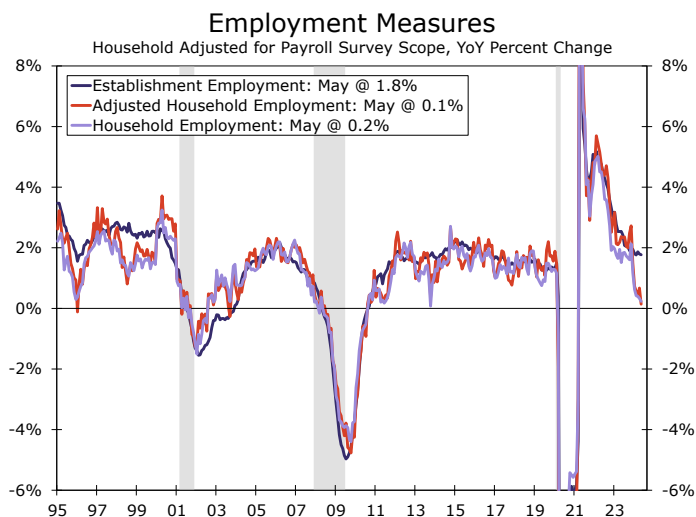
The separate household survey was not nearly as impressive as the nonfarm payroll numbers. Household employment declined by 408K in May and continues to badly lag job growth as measured in the establishment survey, the latter being the survey from which nonfarm payrolls are derived (Figure 3). The split between full-time work (-625K) and part-time employment growth (+286K) was equally underwhelming. A 250K decline in the labor force pushed the labor force participation rate down two ticks to 62.5%. The unemployment rate is derived from the household survey, and the weak household survey employment numbers helped to push the unemployment rate up to 4.0%, its highest reading since January 2022. The household survey is inherently more volatile on a month-to-month basis, and in a recent special report we highlighted some reasons the two surveys have diverged of late. That said, we do not fully discount the household figures and interpret them as taking some shine off the strong headline nonfarm payroll figures.

Figure 2



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 3

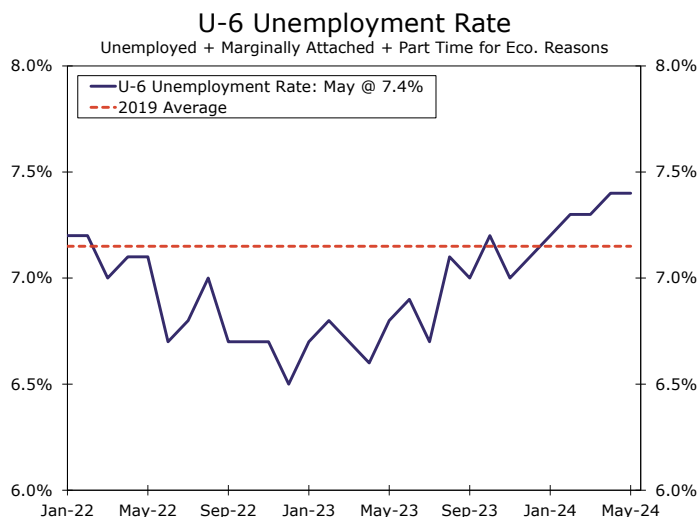


Source: U.S. Department of Labor and Wells Fargo Economics

On balance, headline nonfarm payroll growth remains solid, but we are skeptical that the labor market remains as hot as the headline job figures suggest. There are ample signs that the heat in the labor market over the past few years largely has been removed. Employment growth has narrowed across industries and is currently being led by industries that are less cyclically sensitive, such as government and health care. Temporary help employment declined again in May and has fallen 453K from its peak in 2022, a sign of less intensive labor demand on the margin. Job openings are down one-third from their peak, and the share of workers quitting their jobs has dropped from the all-time highs reached in early 2022. The U-6 "underemployment" rate, which includes those traditionally counted as unemployed as well as individuals who are marginally attached to the labor force or working part time for economic reasons, has been creeping higher from the low reached in December 2022 and is currently above its 2019 average (Figure 4).

Ultimately, today's employment data likely will keep the Fed in a wait-and-see mode at its meeting next week. Policymakers will need to see a few slower inflation reports over the summer in order to start cutting rates by the fall, and all eyes now turn to next week's CPI report, to be released on the same day as the conclusion of the FOMC meeting. Our preview of next week's CPI report can be found [here](#).

Figure 4



Source: U.S. Department of Labor and Wells Fargo Economics

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