Economics Group

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Employment: One for the Fed-Cut Camp

Job growth has slowed, with firms adding only 75K jobs in May and previous months' gains revised lower. While the labor market remains tight, the slowdown adds evidence to a weaker outlook for growth.

Reined In

Amid mixed messages from the ADP report and ISM surveys, the official read on hiring showed that ADP employment was closer to the mark in May. According to the Labor Department, employers added only 75K jobs last month. The slowdown since April looks rather abrupt relative to May's only modest increase in claims, stronger employment components in both ISM surveys and a pickup in NFIB hiring plans. But the trend in hiring has clearly downshifted. Job gains for March and April were revised down by a net of 75K. Since the start of the year, employers have added an average of 161K jobs compared to 223K in 2018.

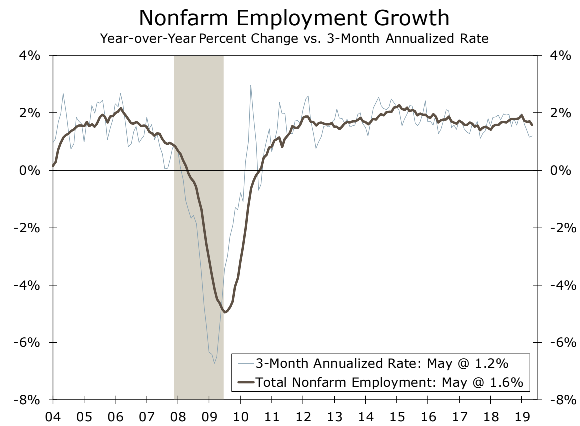
The slowdown in hiring is not wholly surprising. While the level of many labor market gauges remains impressive, the pace of improvement has cooled. Job openings and small business hiring plans have come down since the start of the year, while initial jobless claims are more or less moving sideways.

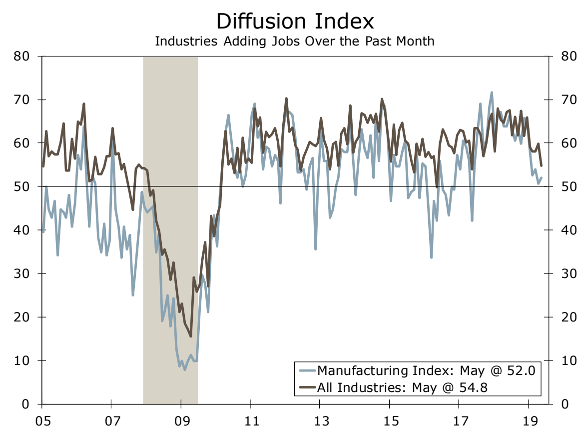
It might be tempting to point to escalating trade tensions over the month as the reason for May's slowdown. However, the survey week was likely too early to pick up the impact from the rapid escalation in trade tensions in May. Manufacturers were still hiring over the month (+3K), while the unchanged payroll figures at transportation & warehousing firms were in line with the prior few months.

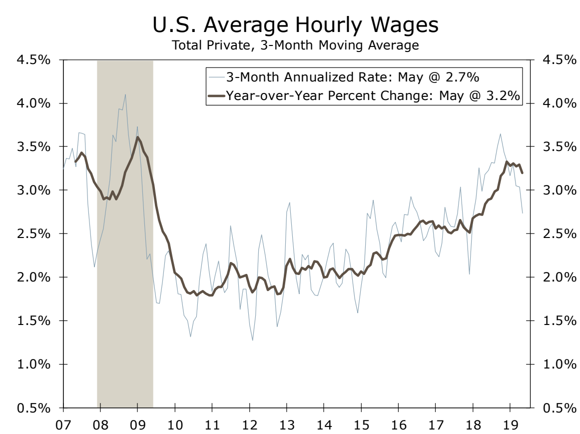
Instead, the marked slowdown in hiring since April stemmed from sectors much less exposed to global trade headwinds. Employment in education & health services increased 27K (vs. 73K in April), government payrolls *decreased* 15K (vs. a 19K gain in April) and professional & business firms added only 33K jobs (vs. 62K in April). Some of the slowdown looks to be payback for exaggerated strength in these sectors the past few months, which suggests the trend is not as weak as May's figures indicate. However, the breadth of the slowdown, with the smallest net share of industries adding jobs since July 2016, is likely to concern the FOMC.

We would expect that the FOMC would need to see more evidence of broad weakening in the economy before cutting rates. Unemployment was unchanged at a 50-year low of 3.6%. One of the brighter spots in today's report was the U-6 rate, which captures under-employment, falling 0.2 points to a new cycle low.

Yet today's employment report drives the FOMC one step closer to a rate cut. Average hourly earnings also came in soft, increasing 0.2%, which brought down the year-over-year change to 3.1%. The average workweek was also unchanged at 34.4 hours after hitting 34.5 hours in March. Labor income growth therefore has started to slow, which could weigh on consumer spending and make Fed officials more nervous about the outlook for growth.







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

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