The Daily Dish

June Jobs

GORDON GRAY | JULY 2, 2021

The May employment report was an improvement over last month's modest gain, but it reflects the reality of growing demand for labor and a labor supply that isn't keeping pace. Employers in May added 559,000 jobs, and the unemployment rate fell 0.3 percentage points to 5.8 percent. The labor force lost 53,000 workers, dropping the labor force participation rate to 61.6 percent.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand increased 0.8 percent in May;
- The Consumer Price Index increased 0.6 percent in May;
- Real average hourly earnings decreased 2 cents from April to May;
- Orders for durable goods (including defense and aircraft) increased 2.3 percent in May;
- New home sales decreased 5.9 percent in May;
- The Price Index of U.S. imports increased 1.1 percent in May;
- ISM Services Index increased 1.3 percentage points to 64.0 percent in May;
- ISM Manufacturing Index decreased 0.6 percentage points to 60.6 percent in June;
- Consumer Confidence Index increased 7.3 points from 120.0 to 127.3 in June;
- ADP reported private sector employment increased by 692,000 jobs in June.

Gordon's Guesstimate: June Jobs

Following 4 months of historic gains, where payroll growth averaged 2.7 million jobs per month, beginning in September of 2020 payroll gains settled into a pace of growth averaging 416,000 new jobs per month. Over the course of this year, payroll gains have averaged not too much more than that at 478,000 per month. While each month has seen relative disappointments and surprises, and there has been significant variation relative to that average, in retrospect it's a more orderly pace of employment growth than what one might have expected, given how dramatically the economy has otherwise changed over these periods.

The circumstances that gave rise to multi-million monthly payroll gains won't be replicated going forward (for the better), and neither can the evolving circumstances over the past year. The policy environment has changed considerably. Recall that from August to December, enhanced unemployment benefits lapsed before being reauthorized at the end of the year. Successive rounds of economic impact payments enhanced household liquidity, and, it turns out, household savings. The course of the virus, the key determinant for pace and trajectory of the economy in 2020 and 2021, receded and then flared regionally and internationally before vaccinations began to inoculate workers and consumers. Congress and the coronavirus did not consult on the timing and variation of the policy and viral environment. But, after a fashion, that's started to change.

A review of the regional economic conditions compiled in the Federal Reserve's Biege Book tells a fairly consistent economic story: Hiring growth has been healthy, largely in those industries most adversely impacted by the virus, hospitality and retail. Demand for workers in these industries has outstripped supply. Across all of the Fed's regions, respondents reported labor supply shortages. Enhanced unemployment benefits were regularly cited as a contributing factor but were by no means the sole factor identified as contributing to labor shortages. Rather, respondents cited a number of factors, including health concerns, childcare, and access to public transportation. As vaccinations continue, public safety concerns will recede, while on the policy front, unemployment benefits should shrink as a contributor to labor shortages. Other policy responses have provided funds for subnational governments to shore up transit budgets and left households primed for consumption.

The policy environment is shifting away household support as the virus recedes and other considerations take priority. Enhanced unemployment insurance benefits, which leave workers in many circumstances better off unemployed, have been curtailed in at least half of U.S. states. Two of the most oft-cited reasons for worker supply lagging demand are diminishing in consequence. But there is something else going on the labor market and it defies some conventional wisdom. Workers, including newly hired workers, are quitting jobs. Households' balance sheets, on the whole, have emerged from the pandemic stronger than before. For many workers, spousal employment, federal assistance, and the effects of the pandemic have induced workers to look for new careers. That effect is more difficult to identify or influence with policy and will take some time to work its way throughout the labor market. For this month, this guesstimator is assuming a payroll gain of 650,000 and a 0.1 percentage point decline in the U-3.