Press Release

Gordon's Guesstimate: May Jobs Report

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Each month, AAF's Director of Fiscal Policy Gordon Gray predicts the results of the monthly employment survey. This month, Gray writes:

My own guestimate is that May payrolls will show a 160,000 gain, unemployment will tick down to 3.5 percent, and hourly earnings will increase by 5 cents for a 3.42 percent year-over-year gain.

See below for his full analysis.

When the second quarter GDP data are released next month, they will show an economy that's still growing. But it won't be growing at 3 percent or likely even 2 percent. The Congressional Budget Office (CBO) forecast that real GDP growth for 2019 would be 2.7 percent. Assuming the United States isn't in a full-blown trade war (not an entirely easy leap), this figure seems like a pretty good bet. But, built into this assumption is decelerating growth over the course of the year. What that downward trajectory looks like on a daily, weekly, and (ahem) monthly basis is a somewhat less stable glide path. Instead, the economic indicators data will increasingly show some mixed signals. This month is a good example.

Average employment growth over the last 6 months has been 207,000 jobs per month. In that period, there have been some large upside surprises, particularly in January and April, and one notable disappointment in February (though there was good reason for that one). On the whole, however, the steady addition of workers to payrolls has been exceptional. Over the same period, the labor force lost 224,000 workers. In the last 4 months, 770,000 workers have left the labor force. That's hardly catastrophic, as there have been single-

month swings that are even larger, but four consecutive months of steady shedding from the labor market is worth monitoring. When combined with an ADP report showing net payroll growth of 27,000 characterized by "labor shortages…particularly at small companies," these losses become a concern.

But for every cause for concern – and there are reasons to count the retail (consistent job losses and disappointing sales data) and manufacturing sectors (flat job growth and policy risks) among those concerns – there are reasons for calm. As noted last month, monthly ADP data is not strongly corelated with the initial monthly BLS data – and ADP will essentially tell you that. The employment indices for the ISM Manufacturing and Non-Manufacturing surveys both posted gains in May. The consumer confidence survey posted a strong gain in May, returning to near-historic highs, in part based on perceived strength in the labor market. The four-week average for initial unemployment claims was down as of the beginning of this month.

What story do these data tell? For the month of May, I suspect we're looking at a tight labor market in an economy that's slowing, but still growing 10 years on from the Great Recession. My own guestimate is that May payrolls will show a 160,000 gain, unemployment will tick down to 3.5 percent, and hourly earnings will increase by 5 cents for a 3.42 percent year-over-year gain.

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