The Daily Dish

July 2nd Edition

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Happy Jobs Friday Thursday. May's report was filled with good news. Even the monthly Achilles heel of the labor market, wage growth, showed some signs of turning around. After months of stagnant wages, hourly earnings finally ticked up by 0.3 percent. Meanwhile the report showed stubbornly flat weekly hours, hampering the growth of labor income. Will this month's report be a dud or take off like a firework? For a reminder, here is a recap of key economic indicators since last month's report:

- The price index of U.S. imports increased 1.3 percent in May;
- The Producer Price Index for final demand increased 0.5 percent in May;
- The Consumer Price increased 0.4 percent in May;
- Real average hourly earnings decreased 1 cent from April to May;
- Orders for durable goods decreased 0.6 percent;
- Consumer Confidence index increased from 94.6 to 101.4;
- New home sales increased 2.2 percent in May;
- ISM manufacturing index was increased to 53.5 percent in June; and
- ADP reported private-sector employment was up by 237,000 jobs in June.

Eakinomics: June Jobs Report

The employment report for June will be released at 8:30 this morning. (The Thursday release is due to the national holiday tomorrow. The Employment Situation report is typically released on the third Friday after the conclusion of the week the survey is done; that is the week that includes the 12th of the month.) In general, one would expect a strong report. After a weak first quarter, recent indicators have shown some real strength in the economy.

Consumer confidence is up to the highest average during the first six months of the year since 2004. The Reuters/University of Michigan consumer sentiment index increased 5.4 points from 90.7 in May to 96.1 in June, and both the current conditions index (up 8.1 points) and the expectations index (up 3.6 points), showed improvement. Increased confidence is one reason that consumer spending in May was up 0.9 percent — the biggest increase since August 2009. Similarly, the 0.7 percent rise in core retail sales brought them to 4.3 percent higher than in May 2014. New and existing home sales also rose strongly during the second quarter.

Outside the household sector, the Philadelphia Federal Reserve survey showed a rise in its index of economic activity to 15.2 in June from 6.7 in May. Also, new orders of core capital goods — a proxy for business investment spending — increased 0.4 percent in May. Turning to the labor market itself, the most recent 4-week moving average for new claims of unemployment insurance fell to 273,750, a low level. Yesterday, the ADP Employment Report indicated 237,000 jobs in June, up from an average of 207,000 each over the past three months.

In short, lots of reasons to expect a strong report. But how will that strength manifest itself. A reasonable guess for the growth of Gross Domestic Product in the second quarter is in the 3.4 to 3.6 percent range, reflecting a rough trend of 2.6 percent and some rebound from the temporary factors of port closures and bad weather. If productivity continues to stumble along at growth of 0.5 percent or so, this translates into roughly 3 percent growth (annual rate) in employment. That would mean 350,000 jobs. Alternatively, if productivity rebounds to a more normal 1.2 percent growth, this would translate into 260,000 jobs. Anything in between is fair game at 8:30.

The mirror image of the jobs number will be the strength of real wage growth. If productivity is stronger, real average hourly earnings will rise more strongly and vice versa. Finally, employment growth is almost assuredly going to be stronger than the labor force growth — the trend increase is only 120,000 workers — leading the unemployment rate to decline somewhat.

My instincts lean toward more jobs and less productivity, so I'm calling for 290,000 jobs and a decline in the unemployment rate from 5.5 to 5.4 percent.

From the Forum

Prescription Drug Spending Not Dominating Health Expenditures by Conor Ryan, AAF Health Care Data Analyst

A Better Approach for End of Life Planning by Brittany La Couture, AAF Health Policy Counsel

Fact of the Day

The president's proposal for "free" community college is estimated to cost $60 billion, or roughly one-fifth of all spending on the Pell Grant program over the next decade.