The Daily Dish

May Jobs

GORDON GRAY | JUNE 7, 2019

The employment figures in the April jobs report reflected largely unalloyed strength. The 236,000 private-sector job gains were broadly distributed across the economy, with the retail sector the only area of concern. The unemployment rate fell to the lowest rate since 1969, a further indication that the labor market is historically strong. Workers saw a 6-cent raise in their hourly earnings, reflecting a 3.2 percent year-over-year earnings growth. The bottom line: The April jobs report reflected the enduring strength of the current recovery, now looking to hit its 10-year anniversary.

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

- The Producer Price Index for final demand increased 0.2 percent in April;
- The Consumer Price Index increased 0.3 percent in April;
- Real average hourly earnings decreased 1 cent from March to April;
- Orders for durable goods decreased 2.1 percent in April;
- New home sales decreased 6.9 percent in April;
- The Price Index of U.S. imports increased 0.2 percent in April;
- ISM Non-Manufacturing Index increased to 56.9 percent in May;
- ISM Manufacturing decreased to 52.1 percent in May;
- Consumer Confidence Index increased from 129.2 to 134.1 in May;
- ADP reported private sector employment increased by 27,000 jobs in May.

Gordon's Guesstimate: May Jobs
By Gordon Gray, AAF's Director of Fiscal Policy

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.