



U6 Fix

Eyebrows Are Raised

GORDON GRAY | JUNE 2, 2023

Payroll growth in May surprised, coming in substantially above expectations. The establishment survey paints a picture of a robust labor market with a seemingly inexhaustible appetite for new workers. Enduring labor demand is visible elsewhere, such as in UI claims and jobs openings, so it's not inconsistent with those measures. In the face of stubborn inflation, however, it suggests an economy that remains overheated. One potential trouble spot is the fairly significant divergence between the household and establishment surveys. A 0.3 percentage point increase in unemployment is worth minding.

The Bureau of Labor Statistics (BLS) reported that employers added 339,000 workers to their payrolls in May. The private sector added 283,000 workers to their rolls last month, while government employment gained 56,000. Goods-producing industries added 26,000 new workers. The construction industry again saw the largest gains, with 25,000 new workers, while manufacturing employment modestly declined by 2,000 workers. The manufacturing decline was largely animated by a 5,000 worker decline in durable goods manufacturing. The service sector gained 257,000 workers, with the private education and health services industry leading the gains with 97,000 new workers added in May. Professional and business services added 64,000 and the leisure and hospitality sector added 48,000. Employment gains in March and April were revised upwards by 93,000.

BLS reported that the unemployment rate in May increased 0.3 percentage points to 3.7 percent, bouncing somewhat off a recent floor. The labor force participation rate remained at 62.6 percent, reflecting a 130,000 worker increase in the labor force, continuing the improvement in this measure, with over 2 million workers having joined the labor force over the last 6 months. The Household survey diverges somewhat from the establishment survey showing a 440,000 increase in unemployed workers and a decline of 310,000 in the number of employed workers. This movement explains the discrepancy between the substantial employment gains and the significant jump in the unemployment rate.