U6 Fix

Swing and … Miss!

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On the heels of a strong April jobs report and a month of strong readings of the high-frequency data, the labor market appeared set to take off. No.

There were only 138,000 new jobs, and significant (66,000) downward revisions to March and April. Average hourly earnings were up by 0.2 percent, about 2.4 percent at an annual rate. That translates to very modest real wage growth. Meanwhile average weekly hours were flat.

There did appear to be good news on the unemployment rate, as it dipped from 4.4 to 4.3 percent. But overall the household survey was weak. The labor force fell by 429,000 and labor force participation dropped from 62.9 to 62.7 percent. The household survey showed employment falling by 233,000.

Among some of the key unemployment rates, adult male unemployment continued to decline and is at 3.8 percent, Hispanic unemployment is flat at 5.2, and the teenage unemployment rate – a volatile series – fell from 14.7 to 14.3 percent.

Data junkies here's your fix: the May U-6 (the broadest measure of unemployment) fell to its lowest level since 2007, falling another 0.2 to 8.4 percent due to a fall in the core unemployment rate and a decline in discouraged workers.

The bottom line: The May report was a disappointment. Taken with the downward revisions, it suggests a continuation of the combination of slow GDP growth and weak productivity growth, emphasizing the need for structural reforms in tax, regulatory, and entitlement policies.