

US Macroeconomics

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Still a Soft Landing, For Now

June nonfarm employment rose just 209k which was less than the 230k consensus estimate and a “whisper” estimate closer to 300k, following better than expected ADP and ISM Services employment readings earlier in the week. Furthermore, **the June jobs gain came after a cumulative 110k in downward revisions**. This had the effect of pulling the three-month moving average down a slight 3k to 244k. (See chart below.) More downward revisions may be forthcoming.

The latest Quarterly Census on Wages and Employment (QCEW) suggests that the level of 2022 employment could be overstated by as much as 927k or 77k workers per month. The next QCEW is released on August 23rd after which point the Bureau of Labor Statistics will provide a preliminary estimate of next year’s benchmark revision.

Private payrolls were even softer, up only 149k in June. **June was the smallest increase in private jobs since they declined 258k in December 2020**. The current three-month moving average on private payrolls stands at 196k versus 198k in May. Further slowing is likely, given the relative weakness in temporary workers (i.e., temps).

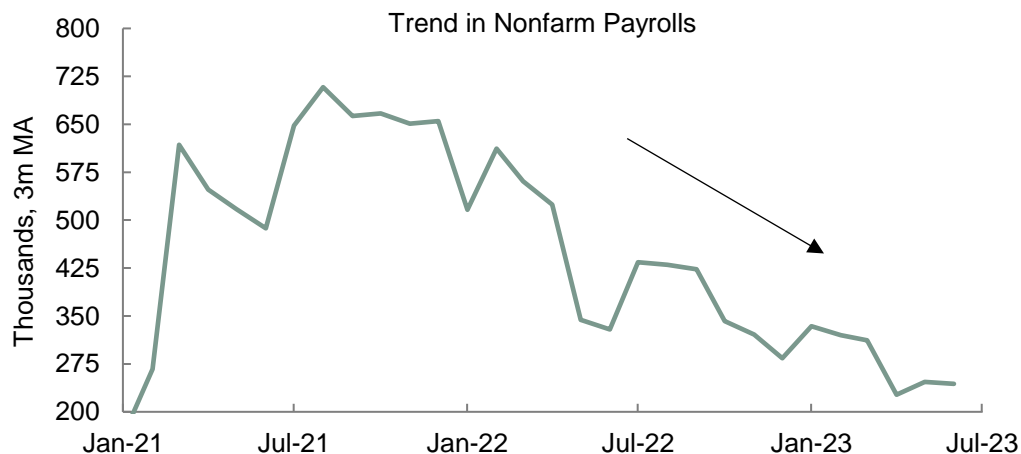
Temps are a leading indicator of future labor demand, and they fell 13k in June following a small 3k increase in May. Temps are down in four out the last five months. Another leading indicator of hiring also remained weak as well. The manufacturing workweek was steady at a cyclical low of 40.1 hours for the third month in a row.

Average hourly earnings were a tenth better than expected at 0.4%. With a 0.1% upward revision to May, the year-over-year rate on wages is now 4.4% versus expectations of 4.2%. This will be of mild concern to monetary policymakers given the 0.1% decline in the unemployment rate to 3.6%.

The fall in the unemployment rate was due to a combination of higher Household employment (273k) and lower unemployment (-140k). While this led to a modest 133k increase in the labor force, **the labor force participation rate remained steady at 62.6% for the third month in a row**. This compares to a pre-pandemic reading of 63.3%.

Surprisingly, the broadest measure of labor slack, the U-6, edged up a couple of tenths to 6.9%. This is the highest reading since last August (7.0%) and hints of a slight loosening in labor market tightness.

The bottom line: **The employment report is consistent with another 25 basis point rate hike on July 26th**. But if job growth continues to moderate and the unemployment rate follows the U-6 modestly higher, the Fed may be able to skip hiking at the September 20th FOMC meeting.



Sources: BLS, Haver, SMBC Nikko

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