

June U.S. Employment

June Payrolls Up by a Strong 222,000, Unemployment Rate Ticks Up to 4.4 Percent

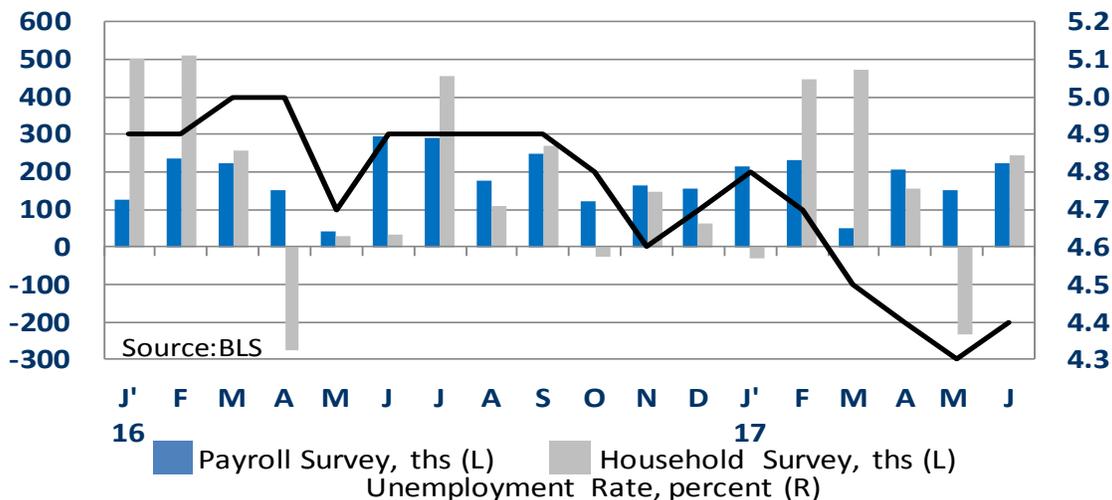
- Payroll Employment increased by 222,000 jobs in June, above expectations.
- The Unemployment Rate for June increased slightly to 4.4 percent.
- Average Hourly Earnings increased by 0.2 percent for the month; the average workweek gained 0.1 hours.

Expectations for employment growth have eased in recent months. Today's employment report for June confounded those softer expectations, showing that payroll employment increased by a strong 222,000 net jobs for the month. Moreover, April and May payrolls were revised up by a combined 47,000 jobs. The household survey of employment was also strong, showing a net gain of 245,000 jobs. But the civilian labor force showed even stronger growth, increasing by 361,000 workers for the month. This brought the unemployment rate up slightly to 4.4 percent. This is not a sign of a cooling labor market. We expect that labor market conditions will continue to tighten through the second half of this year. The average workweek inched up by one tenth of an hour to 34.5. Average hourly earnings increased moderately by 4 cents, or 0.2 percent. So this labor report hit the trifecta, showing that more workers worked longer hours and got paid more for it. This is supportive of income growth in June and beyond, and consumer spending too. A healthy labor market combined with increasing house prices is good news for household wealth. Today's good labor report for June is consistent with increasing real GDP growth in the recently completed second quarter. It does not alter our view that we will see no fed funds rate increase at the upcoming July 25/26 FOMC meeting. We continue to expect that the Fed will announce the beginning of balance sheet reduction at the September 19/20 FOMC meeting. We look for the next 25 basis point increase in the fed funds rate range to come at the conclusion of the December 12/13 FOMC meeting.

The establishment details in the June employment report look good. Mining and logging gained 8,000 workers despite lower oil prices in June. Construction employment was up by 16,000. Construction companies still report difficulty finding workers. Manufacturing employment gained a net 1,000 workers for the month. Wholesale trade employment was up by 10,000 jobs. Retail trade was up by 8,100. Information industries shed 4,000 workers. Financial services employment was up by 17,000. Professional and business services gained 35,000 jobs. Education and healthcare employment was up by 45,000. Leisure and hospitality gained 36,000 jobs in June. Government employment was up by a strong 35,000 workers. At the beginning and at the end of the summer, seasonal adjustment effects sometimes skew the local government numbers.

Market Reaction: U.S. equity markets opened with gains. The 10-Year T-bond yield is up to 2.38 percent. NYMEX crude oil is down to \$44.58/barrel. Natural gas futures are up to \$2.92/mmbtu.

June was Good for Job Growth



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