July 7, 2023 by Peter Boockvar

Knuckle Ball Jobs Report

Payrolls in June grew by 209k, 21k under the estimate while the private sector print was 50k below expectations at 149k. Also of note, there were net downward revisions of 110k to the two prior months combined. After falling by 310k in May, the household survey got back many of those jobs, rising by 273k. Combine that with a rise in the labor force of 133k and the unemployment rate fell one tenth to 3.6% after jumping by 3 tenths last month. The U6 rate in contrast rose 2 tenths to 6.9% and that quietly is the highest since August 2022.

The Birth/Death model is gaining more attention because of its difficulty in catching trends, both up and down as it overstates job gains at the peak of an expansion and understates them at the trough. It added 26k jobs in the month vs 64k in June 2022 and which compares with 102k in June 2019, so no real influence of note this month compared to the more outsized contributions in the months prior.

The participation rate held at 62.6% but rose again for the important 25-54 yr old cohort to 83.5% which compares with 83% in February 2020. That's a plus getting these people back to work. The employment to population ratio was unchanged at 60.3% and was 60.4% two months ago. Hours worked was a big fly in the May jobs report when it fell down to 34.3, which matched the lowest since 2011 not including Covid. It ticked up to 34.4 in June. The 5 yr average leading into Covid was 34.5.

Average hourly earnings rose .4% m/o/m, one tenth more than expected and May was revised up by one tenth to .4% too. The y/o/y gain was 4.4% and combine this with hours worked and average weekly earnings grew by .7% m/o/m after a one tenth gain and by 3.7% y/o/y. For perspective, in the 20 yr leading into Covid, average hourly earnings averaged 2.5% so we're still trending almost double that.

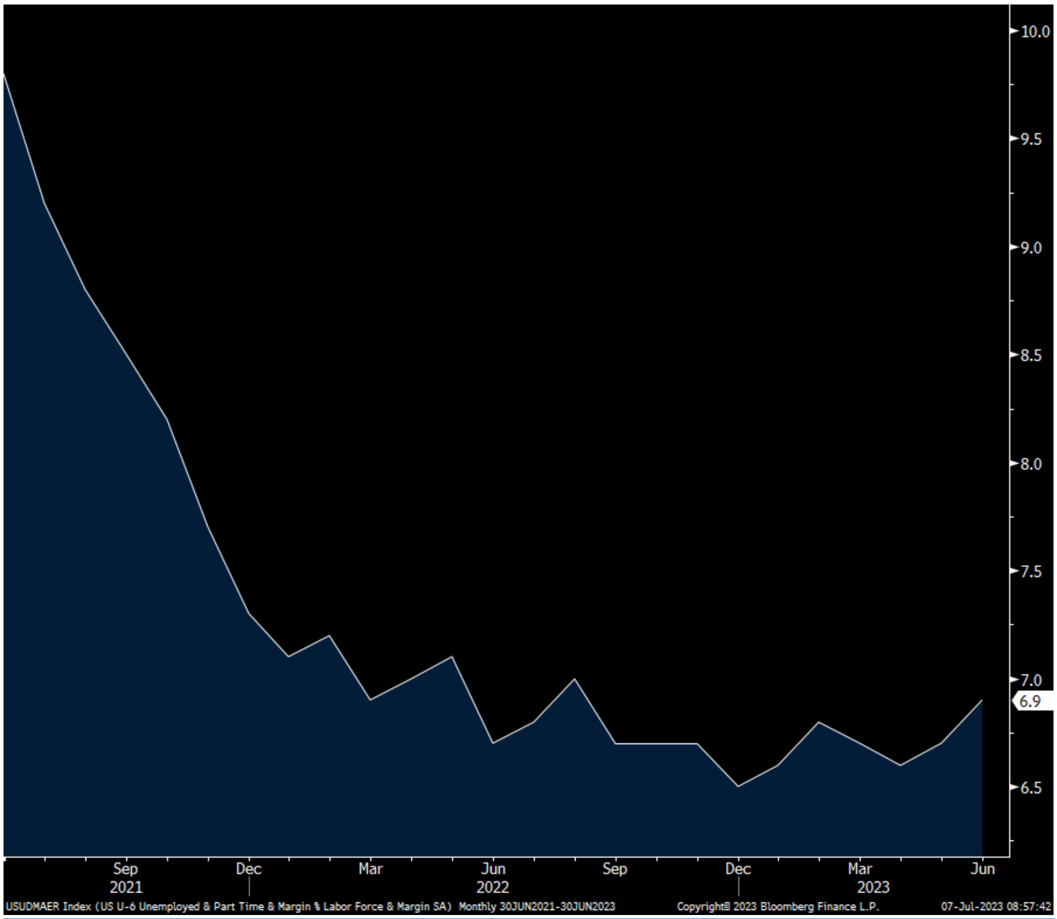
While ADP said that over 200k leisure/hospitality jobs were created in June, the most since 2021, the BLS said it was just 21k and over the past 3 months has seen a big slowdown which makes sense as while blue collar labor supply is still tight, things have gotten more staffed. Of note, temp workers fell by 13k which is down for the 4th month in the past 5 and is historically a good precursor to slower full time hiring. There was no job gain for a 2nd month in Information and jobs were lost in retail and trade/transport. Hiring again was seen in private education/heath and also in professional/business services and in the financial sector. Government hiring totaled 60k vs 47k in the month before.

On the goods side, manufacturing added 7k, in contrast to the drop in ADP and the ISM report, after a drop of 3k in May. Construction (which needs to be watched because of all the Inflation Reduction Act manufacturing spending going on, particularly in battery and chips, h/t RK) saw net hiring of 23k, the same pace seen in May after more sluggish gains in the prior 3 months.

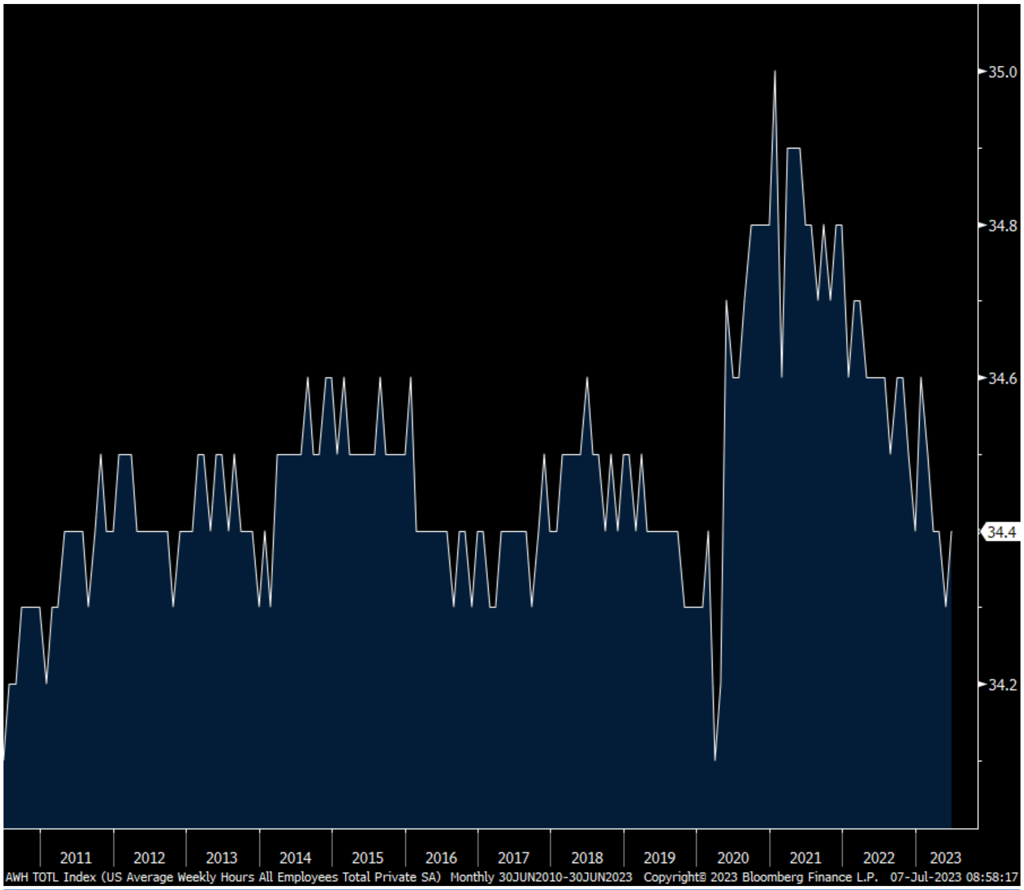
Bottom line, while ADP and the BLS should have their surveys converge over time, we've been reminded again that on any given month they can tell two different stories. Year to date, ADP has averaged 263k jobs per month for the private sector and the BLS is now at 278k, so pretty close and all ADP did yesterday was play catch up. There is nothing in today's data that has shifted market expectations for the Fed as odds for the July hike are at 88%. That said, keep your eye on the U6 unemployment rate which is a broader view than U3 as it includes those working part time that want full time and those who are not looking for work but would take a job if offered. Also, temp jobs are now being lost in a more consistent way which says something about full time hiring intentions. The positive in the labor market will be the need to fill all the factories that are being built subsidized by the federal government, along with other infrastructure jobs paid by both the federal government but also via unspent ARPA (American Rescue program that still has unspent funds) money.

The 2 yr was at 5% just before the data hit vs 4.96-.97% right now. The 10 yr was trading at 4.07% vs 4.05-.06% as of this writing. The US dollar, which I talked about this morning, is at the low of the morning.

U6 Unemployment Rate



Hours Worked



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