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# Labor Market Shocker Hints at an Early End to Recession

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Wednesday's giant forecast miss on the ADP employment change report had already cast doubt on dire forecasts for continued massive job loss in the Bureau of Labor Statistics (BLS) May report. This morning, the actual nonfarm payroll numbers was a shocker for the ages. Whereas the median forecast had indicated U.S. businesses would shed another 7.5 million jobs, the reality was a *gain* of 2.5 million, easily the largest single month increase in the history of the company survey going back to 1939. *Somehow, forecasters missed by around 10 million.*

The separate household survey showed a 1.7 million rise in the labor force and a huge 3.8 million job increase, dragging the headline unemployment rate downward from 14.7% to 13.3%, well below the 19% median forecast. However, the BLS reported again this month that *"If the workers who were recorded as employed but absent from work due to "other reasons" (over and above the number absent for other reasons in a typical May) had been classified as unemployed on temporary layoff, the overall unemployment rate would have been about 3 percentage points higher than reported (on a not seasonally adjusted basis)."* What the BLS is telling us is the unemployment rate for May is actually closer to 16.3%. April unemployment, reported at 14.8%, is actually closer to 19.8%.

About 40% of the job gains in the household survey were part-time. The broader U6 measure, which includes those part-time workers preferring to work fulltime as well as Americans who would *like* to work but have not actually *looked* for work in the last month, declined from 22.8% to 21.8%. One of many remarkable things to chew on is that since the National Bureau of Economic Research (NBER) considers resumption of job growth as one of the primary factors in determining the end of a recession, this recession may technically be over. What makes this thought even stranger is that the NBER hasn't yet declared a starting date.

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Job gains reemerged primarily in the industries that lost jobs last month. The leisure and hospitality sector added the most (+1.24 million) as restaurants and bars reopened their doors, followed by construction (+464k), health and education services (+424k), retail (+368k) and manufacturing (+225k). The government sector is still struggling mightily as members of congress argue over the amount and timing of additional aid to state and local governments. According to the BLS, local governments shed -487k jobs in May with two-thirds of these losses attributed to school closures. State governments laid-off another -84k in May with 75% of these losses resulting from cuts in state education.

Average hourly earnings fell -1.0% in May, after climbing +4.7% in April. In the 15-year history of this series, there has never been a wage gain anywhere near April's, or a loss even close to the May reading. Lower paid leisure and hospitality workers exiting payrolls in April and returning in May are the reason for the dip and subsequent surge.

According to information reported by the BLS, the number of Americans unemployed for less than 5 weeks fell by 10.4 million in May to 3.9 million, while those without a job for 5 to 14 weeks climbed from 7.8 million to 14.8 million. This is hard to reconcile, but probably has something to do with support from the paycheck protection program. And in fact, the whole report is hard to reconcile.

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*Please see disclosure on page 2.*

The bottom line is that the economy is no longer on life support. The trough was apparently reached in April; beyond that, it's still wait and see. Yesterday's initial claims report for the last week in May still showed 1.9 million Americans filing for first-time unemployment benefits. The fact that millions are still being laid-off indicates "normal" is still a long way from where we are now.

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Stocks are up big in early trading following the blowout labor report, while bond yields continue to retreat from historical lows.

## Market Indications as of 10:20 A.M. Central Time

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|---|---|
| DOW | Up 896 to 27,178 (HIGH: 29,551) |
| NASDAQ | Up 177 to 9,793 (HIGH: 9,817) |
| S&P 500 | Up 80 to 3,193 (HIGH: 3,386) |
| 1-Yr T-bill | current yield 0.17%; opening yield 0.16% |
| 2-Yr T-note | current yield 0.22%; opening yield 0.19% |
| 5-Yr T-note | current yield 0.48%; opening yield 0.41% |
| 10-Yr T-note | current yield 0.93%; opening yield 0.82% |
| 30-Yr T-bond | current yield 1.74%; opening yield 1.63% |