Slightly Softer Labor Numbers Unlikely to Sway Fed

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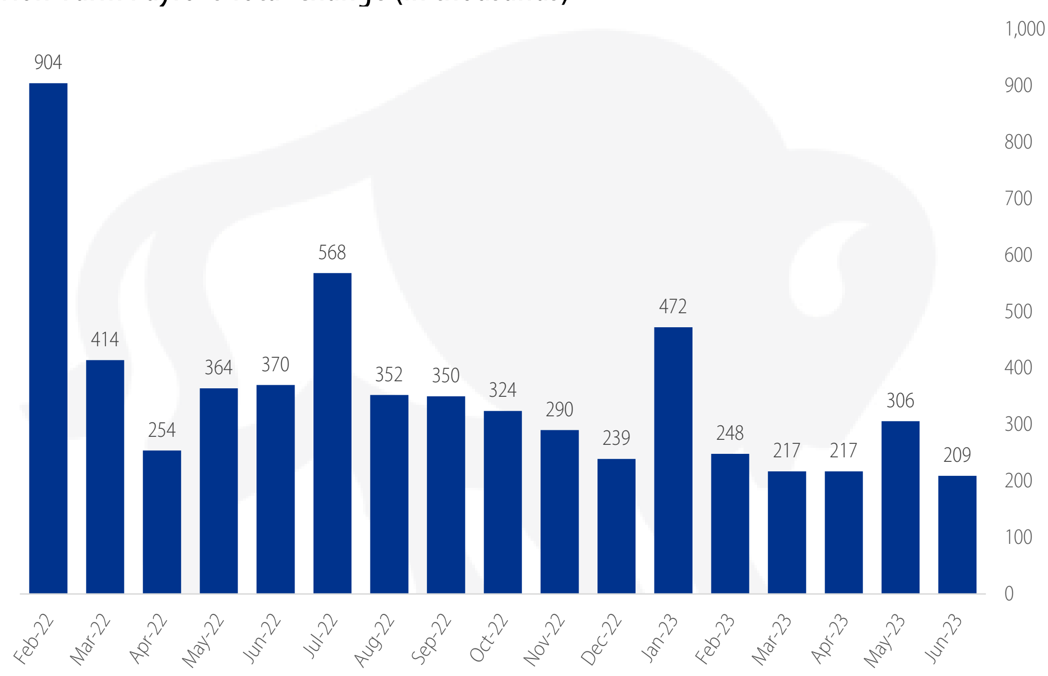
Thursday's blowout ADP employment number hinted that the monthly report from the Bureau of Labor Statistics might also crush forecasts. As it turned out, this morning's release was on the soft side. For the first time in 15 months, the actual nonfarm payroll number fell short of expectations. In June, US companies added +209k workers, slightly below the +230k median forecast and the lowest gain since December 2020. Perhaps more meaningful was a combined -110k downward revision to the previous two months.

Notable payroll gains were found in state and local government (+59k), healthcare (+41k), social assistance (+24k) and construction (+23k). Business and professional services added +21k jobs, clearly trending lower after averaging +62k per month in 2022. Leisure and hospitality also added +21k jobs in June, but the total count remains below pre-pandemic levels, the only sector to make this claim. Finally, retail shed another -11k jobs as Americans continue to shift their purchases from goods to services.

The unemployment rate fell from 3.7% to 3.6%, while the total persons unemployed and actively seeking work decreased from 6.1 million to 6.0 million. Another 5.4 million would like a job, but had not looked for work within the past 30 days.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The labor force participation rate held steady at 62.6% for the fourth straight month, and remains defiantly below the pre-pandemic level of 63.4%. However, the participation rate for prime age workers (25 to 54 years) is now at its *highest point in over two decades*, which reinforces the claim that it's primarily older workers who have exited the workforce.

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The average workweek rose from 34.3 hours to 34.4, not a big move, but in the wrong direction from the viewpoint of Fed policymakers. Hourly earnings exceeded expectations, rising +0.4% in June. This drove the year-over-year increase up from +4.2% to +4.4%, another frustration for Fed officials hoping to lower service sector price gains.

The report may have been softer than anticipated, but shouldn't be viewed as weak. Nothing in the data suggests a recession is on the near-term horizon. The unemployment rate moved lower, hourly earnings higher, and payroll growth (even after revisions) is still averaging a solid +278k through the first six months of the year. At this point, Fed officials are fully expected to resume their tightening campaign at the next FOMC meeting in three weeks. The futures market has priced in a 91% chance of a quarter point increase on July 26th.

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Bonds are mixed, with no clear direction in early trading. The short end has rallied, while the long end is trading off. The 10-year Treasury yield, which rose above 4% yesterday for the first time in four months, has moved slightly higher this morning.

Market Indications as of 9:14 A.M. Central Time

DOW	Down -29 to 33,894 (HIGH: 36,800)
NASDAQ	Up 49 to 13,728 (HIGH: 16,057)
S&P 500	Up 4 to 4,415 (HIGH: 4,797)
1-Yr T-bill	current yield 5.42%; opening yield 5.38%
2-Yr T-note	current yield 4.92%; opening yield 4.98%
3-Yr T-note	current yield 4.63%; opening yield 4.68%
5-Yr T-note	current yield 4.32%; opening yield 4.35%
10-Yr T-note	current yield 4.04%; opening yield 4.03%
30-Yr T-bond	current yield 4.03%; opening yield 4.00%