

Foundation Cracks Appear in Otherwise Solid May Employment

The latest employment report from the Bureau of Labor Statistics offers a mixed view of the U.S. labor market. While headline numbers suggest continued resilience, a closer look reveals signs of emerging softness.

Nonfarm payrolls rose by +139k in May, slightly above the median forecast of +126k. However, this gain is offset by a net downward revision of -95k to the previous two months. Adjusted for these revisions, the net increase in employment is less encouraging and suggests a cooling trend.

Job creation was heavily concentrated in healthcare (+62k), leisure and hospitality +48k) and social assistance (+16k). Conversely, several key industries experienced job losses, including professional and business services (-18k), manufacturing (-8k), and retail trade (-6.5k). The decline in factory employment is particularly notable, perhaps reflecting the adverse effects of recent import tariffs on domestic producers.

Temporary help services also shed -20.2k jobs. Because employers often reduce temporary staff before making cuts to permanent employees, this decline may signal future weakness. Federal employment fell by -22k in May, bringing the total decline since January to -59k. However, the overall decline in government workers was offset by a +21k gain in state and local government payrolls.

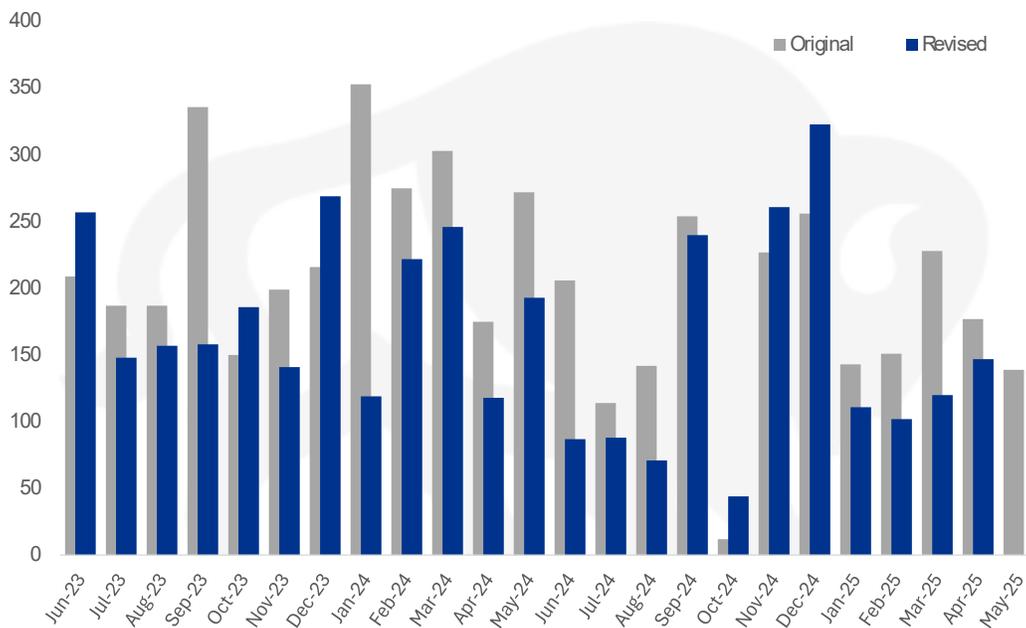
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Non-Farm Payrolls Total Change (in thousands)



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Source: Bureau of Labor Statistics

The separate household survey painted a more concerning picture. Total employment declined by -696k, while the civilian labor force shrank by -625k. This contraction in labor force participation helped keep the unemployment rate steady at 4.2% for the third consecutive month. *Had the labor force remained steady, the unemployment rate would have climbed to 4.7%.*

Still, the total number of unemployed Americans rose by +71k, pushing the total above 7.2 million. An additional 6 million were not actively seeking work but indicated they would accept a suitable job if offered.

Other points of interest in the household survey were a slight 0.1 percentage point increase in the unemployment rate for workers with a college degree to 2.6%, and a 0.6 decrease in the jobless rate for workers with less than a high school degree to 5.5%.

On the inflation side, average hourly earnings rose by +0.4% in May, exceeding expectations. On a year-over-year basis, wages are up +3.9%. For Fed officials focused on inflation, acceleration in wage growth is unwelcome.

Equity markets opened higher this morning, buoyed by the headline job gains. At the same time, bond yields climbed as investors recalibrated expectations for future rate cuts. While the report is unlikely to alter the Fed's current course, underlying softness, particularly in the household survey, suggests the labor market's foundation may be weakening. If the Fed were to cut rates before September or act more aggressively, it would likely be in response to a sharper deterioration in employment conditions.

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Market Indications as of 9:07 A.M. Central Time

DOW	Up 549 to 42,868 (HIGH: 45,014)
NASDAQ	Up 256 to 19,555 (HIGH: 20,174)
S&P 500	Up 70 to 6,010 (HIGH: 6,144)
1-Yr T-bill	current yield 4.15%; opening yield 4.06%
2-Yr T-note	current yield 4.02%; opening yield 3.91%
3-Yr T-note	current yield 4.00%; opening yield 3.89%
5-Yr T-note	current yield 4.09%; opening yield 3.99%
10-Yr T-note	current yield 4.48%; opening yield 4.39%
30-Yr T-bond	current yield 4.94%; opening yield 4.88%

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