Nonfarm Payroll Report for May

Monthly U.S. Employment Data	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
NonFarm Total	+155	+216	+232	+50	+174	+138
Private	+150	+204	+222	+59	+173	+147
Goods-Based	+32	+51	+88	+17	+19	+16
Manufacturing	+18	+12	+22	+11	+11	-1
Construction	+12	+34	+54	+0	-1	+11
Private-Service	+118	+153	+134	+42	+154	+131
Retail	+13	+35	-29	-40	-6	-6
Temp	-17	+15	+10	+13	+4	+13
Educ. & Health	+50	+17	+68	+16	+50	+47
Government	+5	+12	+10	-9	+1	-9
Workweek	34.4	34.4	34.3	34.3	34.4	34.4
Hrly Earn. (m/m)	0.3%	0.2%	0.3%	0.1%	0.2%	0.2%
Hrly Earn. (SA y/y)	2.9%	2.6%	2.8%	2.6%	2.5%	2.5%
Agg. Hrs Worked	0.4%	0.2%	-0.1%	0.0%	0.5%	0.1%
Agg. Emp. Income	0.7%	0.3%	0.2%	0.1%	0.6%	0.2%
Unemploy Rate (%)	4.72	4.78	4.70	4.50	4.40	4.29
Household Emp.	+63	-30	+447	+472	+156	-233

The economy added only 138,000 jobs in May much lower than expected. Manufacturing, retail and government lost jobs. Healthcare, restaurants and energy added jobs. The March and April numbers were revised down by 66,000. The unemployment rate dipped to 4.3 percent from 4.4 percent primarily because labor force shrank. Wage gains rose 0.2 percent for the month amounting to 2.5 percent from a year ago representing a slowdown from January.

There are three primary reasons for the disappointing employment gain in May. Because of tight labor market, it is hard to find people, especially skilled workers. In Silicon Valley, for example, firms are doing M&As to acquire employees, not businesses. Machine shops have to turn away work for lack of personnel. Political uncertainty in Washington is another factor holding back the job market. The probability that any of Trump stimulus would become reality has decreased significantly in recent weeks. The help from the "marginally attached" ---those who are not looking for work and involuntary part-timers--- could be diminishing. So far in this recovery, the underemployment rate (U6), has been falling faster than the headline jobless rate. U6 at 8.4 percent has little room to shrink and the labor force shrank in May. In addition, labor participation rate dropped again in May.

However, it is too early to call for continued slowdown in economic growth and job gains. As economic momentum picks up during the second quarter, employment gains could power up again. The overall picture of the economy is a healthy one. The Atlanta Fed's GDPNow sees the economy growing at close to 4 percent during the second quarter.

To be sure, this report will give more caution to the FOMC to raise the interest rate in June, but will go ahead with the hike. Later, the strong GDP report for the second quarter could give the central bank the evidence that the slowdown is transitory. It will encourage the central bank to hike the interest rate again later this year and go forward with balance sheet normalization.

Wage gains hasn't gained any steam after the peak rate in January. However, all indications are that wages will rise at a faster pace. The tight labor market, healthy job gains emanating from strong GDP and the rising quit rate all point to higher wages. A more comprehensive indicator of earnings---Employment Cost Index---has been showing healthy increases in overall pay. A wage index produced by the Federal Reserve Bank of Atlanta has shown even faster wage increases than the average hourly earnings in recent months.

Surveys by NFIB also point to wage pressures as the labor market tightens. Small businesses are more comfortable about the economic outlook and has been hiring people at a good clip. NFIB surveys for the past several months have shown that hiring is the biggest problem facing them.