Payroll Data for June 2016

Summary

The economy added whopping 287,000 jobs in June. The strength in the job market was widespread throughout the economy. The May number was revised down to 11,000 from 38,000 while April was revised up to 144,000 from 123,000. The unemployment rate increased to 4.9 percent from 4.7 percent primarily due to the increase in labor force. Wages rose 0.1 percent for the month or 2.6 percent form a year ago.

Analysis

After the “OUCH” report in May, some rebound was expected. Wow, no one saw the eruption in June even after accounting for the 35,000 Verizon workers who came back to work in June. The employment market continues to hum. Nevertheless, the pace of hiring has slowed markedly to 147,000 during the April-June quarter from the average of 282,000 during the final quarter of 2015. As the economy approaches full employment, hiring workers is a challenge for many businesses.

The jobless rate rose as people gained confidence in the job market and entered the labor force. The labor participation rate edged up to 62.7 percent from 62.6 percent. During the current recovery, much of the decline in the jobless rate was explained by the fall in the labor participation rate. The number of part-time workers for economic reasons is at 5.8 million, the
lowest since the recovery began and the underemployment rate (U6) fell to 9.6 percent from 9.7 percent.

A continuing encouragement in the report is wage gains rising 2.6 percent from a year ago. As the labor market tightens, employers are having to hike wages to attract skilled workers. This is especially true for small businesses. A NFIB survey shows that hiring is the most difficult issue facing small businesses. Wages are rising at a much faster rate at small businesses than at larger counterparts. According to the Atlanta Fed Wage Tracker, which keep employment composition constant, wages have gone up 3.4 percent form a year ago, much faster than the BLS estimate.

Not everything is well on the job front going forward though. The Brexit outcome will continue to cause economic turbulence from Europe to America. The U.S. economy is advancing at a moderate speed, but soft economic conditions from the global economy will reduce demand for U.S. goods, especially in hi-tech area. Employment growth in Silicon Valley, for example, have been slowing for a while. In addition, the lack of skilled workers are hurting employment gains. For example, it is hard to find carpenters, plumbers, electricians, etc. in the construction businesses. Builders are focusing on expensive homes rather than average-priced homes in order to maintain their profit margins.

Today’s job report won’t change the FOMC’s desire to wait and see. There are too many uncertainties including the aftermath of the Brexit. Under the circumstances, there is no rush. It can wait a while longer.