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TD Economics

Data Release: U.S. labor market right as rain, as job growth rebounds in June

- Non-farm payrolls increased by 287k in June, or over one-hundred thousand above the expected gain, offsetting fully the slowdown in the previous month which was revised down to just 11k – albeit April's gain was nudged up a bit.

- Private payrolls rose by a slightly higher 265k, also way above consensus, led by health care & education (+59k) and leisure & hospitality (+59k) and business services (+38k). Information also had a spectacular month (+44k) as previously striking workers came back to work. Goods-producing industries had a weak month as gains in manufacturing (+14k) were unable to offset the flat construction (+0k) print and continued declines in mining employment (-5k). Government, on the other month, had a solid month (+22k).

- The unemployment rate ticked up by 0.2pp to 4.9%, as a rebound in the labor force overwhelmed the employment gains. The rise in the labor force nudged the participation rate 0.1pp higher to a still-low 62.7%.

- Average hourly earnings rose by just 0.1% during the month, shy of expectations, but the year-over-year rate nonetheless accelerated to 2.6% in June from 2.5% in the previous month.

- Average weekly hours were unchanged at 34.4.

Key Implications

- This morning's report should assuage fears that the progress in the U.S. labor market has stalled. The headline delivered more than a convincing salvo that hiring remains intact and that the previous month's result was largely a construct of statistical quirks and one-off work disruptions. On the whole, the three-month moving average of nearly 150k is a respectable pace of growth, with the broadening of gains across industries offering further encouragement on the resilience of the recovery.

- While we're happy that that the labor force rebounded strongly, leading to an uptick in labor force participation, the household employment gain was soft. As such, the jobless rate nudged up more than expected, (albeit the broader underemployment measure did manage to improve 9.7% to 9.6% on the month). Also disappointing was the soft wage gain, which registered a mere 0.1% uptick – or about half of the expected gain. Still, the annual pace accelerated, suggesting that wage pressures are indeed building gradually.

- The bottom line is that seeing through the month-to-month volatility, the U.S. job market is healthy and job growth – at nearly 150k – is right as rain at this point in the economic cycle. The makeup and breadth of the gains offers further confirmation of the strength of the labor market recovery. And while there were a couple of blemishes on the report, these do not appear overly concerning. Ultimately, we believe the report nudges up the chances of a rate hike later this year, however our base case view is for the Committee to remain on hold until mid-2017.

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