SUMMARY

- The U.S. economy added 223,000 jobs in June, close to the average so far this year. Job growth in April and May was revised down by a combined 60,000, however.

- The unemployment rate fell to 5.3 percent, from 5.5 percent in May. The decline came from people dropping out of the labor force, with the labor force participation rate falling.

- Average hourly earnings were flat in June, and were up 2.0 percent from one year earlier.

- Light vehicle sales were 17.2 million units at an annual rate in June, the third time in the last four months that they have been above 17 million.

- Factory orders fell 1.0 percent in May, the second straight drop. Weakness was concentrated in aircraft and defense, but other segments were also soft.

Payroll jobs rose by 223,000 in June, in line with the market consensus and PNC’s forecast of 230,000. June private-sector employment was also up by 223,000, slightly below the ADP figure of 237,000, with both state and local government and Federal government jobs unchanged. There were downward revisions to job growth in May (to 254,000 from 280,000) and April (to 187,000 from 221,000), for a total downward revision of 60,000. During the first half 2015 payroll job growth was 208,000 per month, a moderate slowing from the average of 260,000 per month in 2014.

The unemployment rate declined from 5.5 percent in May to 5.3 percent in June. The number of people who reported having jobs in the household survey (different from the survey of employers) was down slightly by 56,000 in June for a monthly average increase of 216,000 in the first half 2015, a moderate slowing from the average gain of 231,000 per month in 2014 (see Chart 1). The labor force contracted sharply by 432,000 in June, reversing May’s gain, and the number of unemployed fell by 376,000. The labor force participation rate fell sharply in June by 0.3 percentage point to 62.6 percent, slightly below its average for the past six months, and the lowest level since October 1977. This means the drop in the unemployment rate to 5.3 percent is not as good as it looks, since it is due more to people dropping out of the labor force than finding jobs. The U-6 unemployment rate (unemployed, “under employed” and too discouraged to even look for a job) fell by 10.5 percent in June, its lowest level since March 2008. Part-time jobs for economic reasons (“involuntary part-time jobs”) fell by 147,000 in June and are down by 991,000 from a year ago. Voluntary part-time jobs jumped by 519,000 in June (a typical rise in part-time summer jobs) and are up 636,000 from a year ago. Thus, of the 2.1 million rise in the household measure of jobs over the past year, all are full-time.

The breadth of payroll job growth was widespread in June; the exception was mining, where jobs fell by 4,500, the sixth straight monthly decline, totaling 69,000 jobs lost following the plunge in energy prices and production. Construction jobs were unchanged after large gains in April and May, while manufacturing jobs rose by 4,000. Private service-producing industries added 222,000 jobs in June. This included gains of 64,000 in professional/business services (with a gain of 20,000 temp jobs), 50,000 in eds and med, 49,000 in trade/transportation, 22,000 in leisure/hospitality services, 20,000 in financial activities, and 7,000 in information services.

Average hourly earnings were unchanged in June, after a 0.2 percent increase in May (revised down from a 0.3 percent increase), and were up 2.0 percent from one year earlier. Recall that the employment cost index, the best
measure of worker compensation, rose 0.7 percent in the first quarter and was up 2.6 percent from a year earlier. Average hourly earnings should start to catch up with the more reliable ECI, which itself should show a bigger rise in wages and fringe benefits in the second quarter when it is released on July 31. Stronger wage growth has been the missing piece of the jobs recovery, but the tighter labor market has finally started to push up workers’ wages in 2015. The tighter labor market is leading businesses to raise pay to attract and retain workers, as seen in recent announcements from Wal-Mart, Target, McDonald’s and Ikea that they will be raising their workers’ pay.

Wage gains, along with the huge plunge in energy prices and only a partial rebound, have provided a big boost to consumers’ spending power. Inflation-adjusted after-tax incomes surged 5.2 percent at an annual rate in the first quarter, in sharp contrast to the 0.2 percent per annum decline in real GDP, temporarily boosting consumers’ savings rate to 5.5 percent. Households are now deploying that spending power with strong growth in real consumer spending in March through May, as incomes continued to rise while the savings rate fell. Retail sales likely rose about 0.2 percent in June (reported on July 14), after an 11.6 percent annualized surge from March through May.

In another example of increasing consumer spending, auto and light truck sales were 17.2 million at an annual rate in June, down only slightly from May’s 17.8 million, which was the best month in almost a decade. Sales have been above 17 million in three of the last four months, and PNC is forecasting total sales this year of 17.0 million, up from 16.4 million in 2014; this would be the best year for sales since 2001.

The average workweek held steady at 34.5 hours in June. Combining more workers, unchanged average hourly earnings and a steady average workweek (total hours worked rose by 0.2 percent), workers’ earned income likely rose 0.3 percent in June. The June CPI was likely also up 0.3 percent (the June CPI will be reported on July 17), so real income was flat in June after big gains in April and May. The national average price of a gallon of gasoline likely peaked for this year at $2.91 in mid-June, and the price is $2.88 heading into the July 4 holiday weekend, much lower than $3.73 at this time last year. The national average gasoline price will head down to near $2.65 per gallon by Labor Day and $2.40 by Christmas.

U.S. factory orders fell 1.0 percent in May, compared to a consensus expectation for a 0.5 percent decline. There was a 6.5 percent decline in orders for transportation goods, including a 35.3 percent plunge for civilian aircraft orders. Excluding transportation goods orders rose 0.1 percent, and core capital goods orders (non-defense capital goods, excluding aircraft) fell 0.4 percent. Shipments fell 0.1 percent in May, but were up 0.1 percent excluding transportation goods. Core capital goods shipments, which
are used to calculate business investment in GDP, were also down 0.1 percent.

Orders and shipments both disappointed in May. Some of the drop in orders came from aircraft, with orders down sharply in April and May after a surge in March. Overall manufacturing is growing at a slow pace. Business investment is soft, but should pick up later this year. Consumer spending is increasing, and vehicle orders should support gains through the rest of this year. The stronger dollar is a drag, however, weighing on exports.

The 223,000 rise in June payroll jobs, even combined with a downward revision of 60,000 to job growth in April and May, reinforces our view that the decline in real GDP in the first quarter of 0.2 percent per annum was an aberration, due mostly to temporary factors and statistical problems acknowledged by the Bureau of Economic Analysis. The BEA will attempt to fix this problem in their July 30 release of the advance second quarter GDP report, which will include revisions back through 2012. Real GDP growth will rebound to at least 3.0 percent per annum in the middle two quarters of this year on strength in consumer spending, residential and nonresidential (including public) construction, and less drag from private energy investment and net exports. Along with continued declines in the unemployment and "under employment" rates, and with faster worker compensation growth as best measured by the ECI, this would give the FOMC the needed "confidence" to begin raising the Fed funds rate by 25 basis points at their September 16-17 meeting, as reflected in PNC’s June forecast.

Stock prices were flat on the day, and the 10-year Treasury note rate fell a few basis points to 2.39 percent after the sharp rise in the past several days as the "flight to quality" has waned from Greece missing a payment to the IMF on Tuesday and ahead of a referendum on austerity on Sunday. The dollar was slightly weaker against other major currencies. Crude oil prices were flat, and still below their mid-June peak.

Happy July 4th holiday weekend! The U.S. economy has much to celebrate!