Economic Update

June 7, 2024

Job Growth Rebounds in May; Unemployment Rate Hits 4% for First Time Since Early 2022

- **Job growth rebounded to 272,000 in May, above expectations.**
- **The unemployment rate increased slightly to 4.0%, the first time it has been that high since January 2022, but is still very low on an historical basis.**
- **Wage growth picked up in May, and income growth is running ahead of inflation.**
- **The Federal Reserve would like to see a bit more slack in the labor market. The FOMC will keep the fed funds rate unchanged when it meets next week, but PNC expects rate cuts in late 2024.**

The US economy added 272,000 jobs in May, according to a survey of employers from the Bureau of Labor Statistics, a rebound from the 165,000 jobs added in April (revised lower from an increase of 175,000). Job growth in March was revised slightly lower to 310,000, from 315,000 in last month's jobs report. May job growth was stronger than the consensus expectation of 180,000. Over the past three months the US economy has added an average of 250,000 jobs per month, the same pace as in all of 2023. The private sector added 229,000 jobs in May, with government job gains of 43,000.

After 27 straight months of being below 4%, the unemployment rate increased slightly in May to 4.0%, from 3.9% in April and 3.8% in March. Employment as measured in a survey of households (different from the survey of employers) fell by 408,000 in May from April. The number of people in the labor force—working or looking for work—fell by 250,000. The labor force participation rate, the share of adults in the labor force, fell to 62.5% in May from 62.7% in April. The labor force participation rate has been consistently below the pre-pandemic 63%+ rate, contributing to the ongoing tight labor market.

Average hourly earnings rose 0.4% in May from April, after a 0.2% increase in April. On a year-ago basis average hourly earnings were up 4.1% in May, an acceleration from 3.9% growth in April. The Federal Reserve would like wage growth to slow to something more like 3.5% to be consistent with their inflation objective of 2%.

The average workweek held steady at 34.3 hours in May from April. With more jobs, higher wages, and an unchanged workweek, aggregate earnings rose 0.6% over the month, well ahead of expected inflation of 0.2% (CPI report for May to be released June 12). Rising after-inflation incomes continue to power consumer spending growth in mid-2024.

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Private goods-providing industries added 25,000 jobs in May, with gains for both construction (up 21,000) and manufacturing (8,000). Private services-providing industry employment increased by 204,000 for the month, with 86,000 of those in education/health services. There were smaller job gains in leisure/hospitality services (up 42,000) professional/business services (33,000) trade/transportation/utilities (26,000), and financial activities (10,000). Local governments added 34,000 jobs in May, with much smaller increases for federal and state employment.

The May jobs report was another strong one, with job growth near the average for 2023 and a reacceleration in wage growth from April. The unemployment rate hit 4% for the first time since early 2022, but is still historically low. Jobs declined in the household survey, but that number is more volatile than the employer survey. Still, job growth in the household survey has been lagging well behind that in the employer survey for the past few years, for reasons that aren't clear.

The labor market is still somewhat stronger than the Federal Reserve would like. Job growth continues to run at above the long-term trend of around 175,000, consistent with underlying growth in the labor force. And the Fed would prefer to see a bit more slack in the labor market and wage growth of closer to 3.5%. The Federal Open Market Committee will keep the fed funds rate unchanged, in a range between 5.25% and 5.50%, when they next meet on June 11 and 12. But monetary policy remains contractionary, weighing on economic growth. Job growth should slow later this year to consistently below 200,000 per month, with the unemployment rate slightly above 4% by the end of 2024. This, along with slowing inflation, will support fed funds rate cuts toward the end of 2024.

The fed funds futures market is now pricing in a 48% probability of cumulative fed funds rate cuts of 50 basis points or more by the end of 2024, down from 68% yesterday.

The S&P 500 opened lower today, on expectations for fewer near-term fed funds rate cuts, but as of mid-afternoon is up slightly. The yield on the 10-year Treasury note is up 14 basis points for the day to 4.43%. The dollar is stronger against a basket of currencies on reduced expectations for near-term Fed easing. The price of a barrel of West Texas Intermediate crude oil is unchanged today at around $75.60.

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