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ECONOMIC TALKING POINTS

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A (Not So) Robust Jobs Report

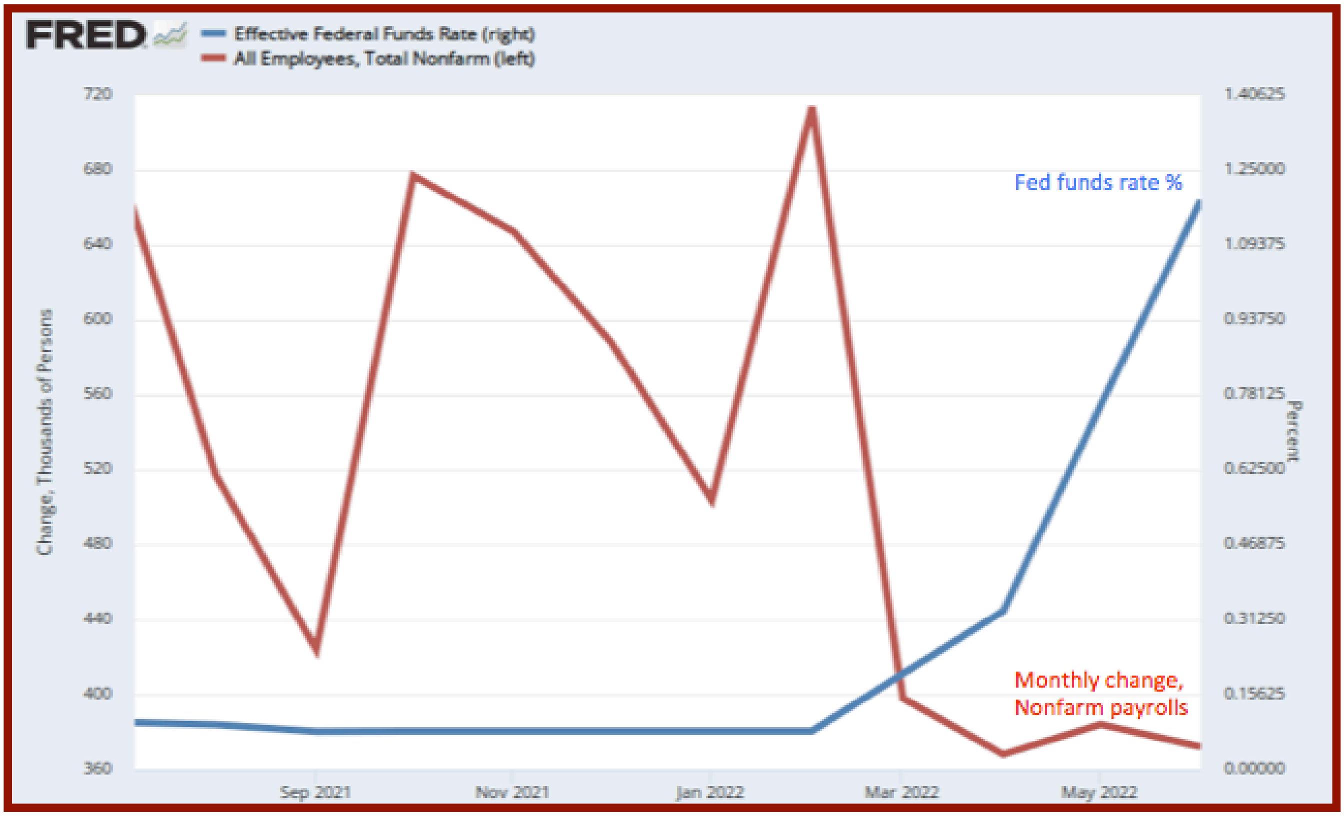
June's upward surprise in payrolls boosts the odds the Fed will ramp up short term rates another 75 basis point later this month. The 372,000 increase in net new hires certainly beat expectations of 265,000. Undoubtedly many will view these numbers as solid proof the economy is still robust and that more, perhaps much more monetary tightening will be needed if the Fed is to bring down the hectic pace of job creation and cool inflation pressures.

At least that seems to be the prevailing view. But a deeper look at the latest employment numbers reveals an economy that is already transitioning toward slower growth.

Look, we can't say this enough: Transition points in a business cycle are the most difficult to read because they typically come with a mix of both strong and weak economic numbers. Changes in the direction of economic activity can also be abrupt or very gradual. This time we see the latter at work as companies struggle to assess where the economy is headed --- yet also fear they may not be sufficiently staffed if demand for goods and services remains vibrant. It's a dilemma for many corporate leaders.

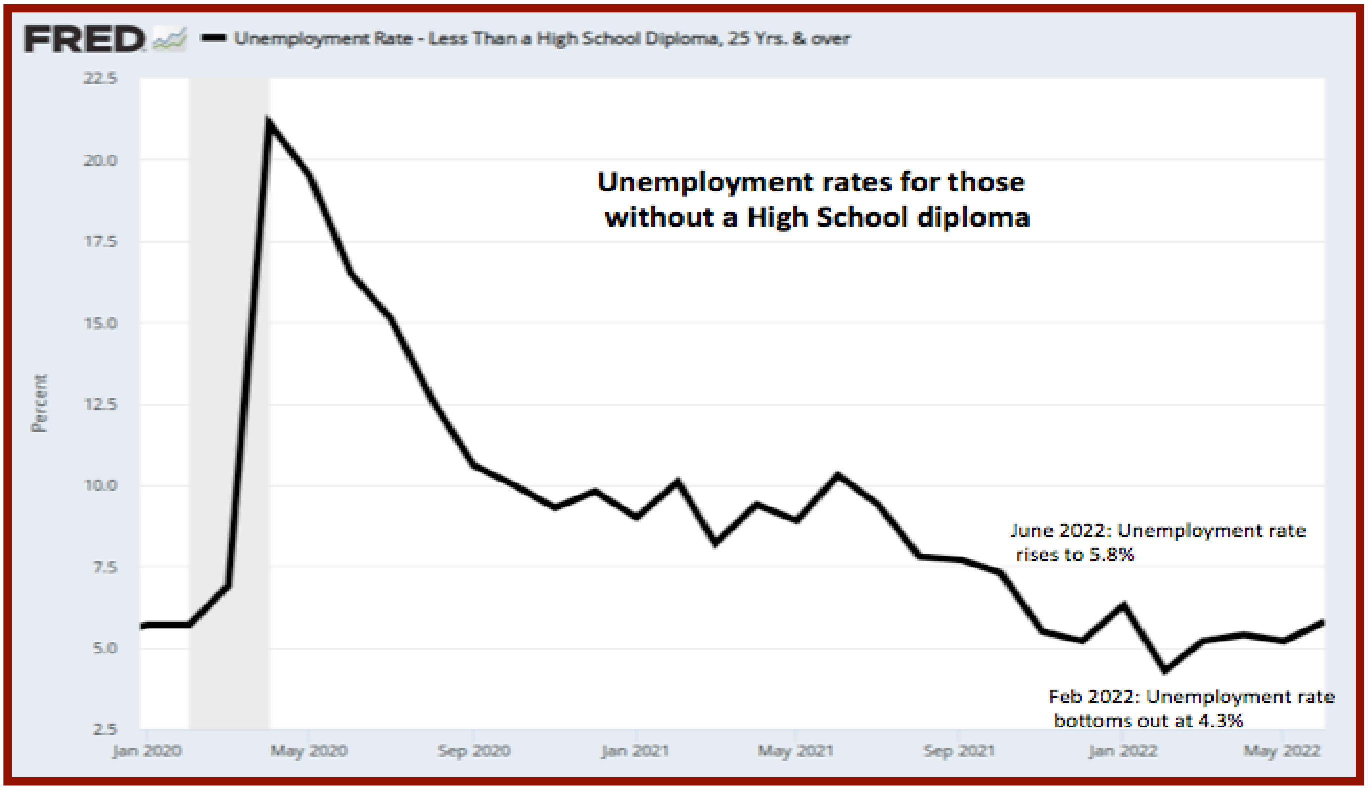
Yet we see fresh signs in this report that employers are turning more cautious. Companies hired 30% fewer workers in the second quarter than in the first three months of the year, and it is down more than 10% from the same spring quarter a year ago. And if you look at the 3-month moving total in payrolls, the period ending in June was the slowest since February 2021. Will the Fed take notice?

Fresh cracks also appear in the household survey. June saw total employment plunge by 315,000. In fact, employment levels have now declined in two of the last three months, a trend not seen since the outbreak of the pandemic in early 2020. What kept the jobless rate steady at 3.6% last month was that 353,000 chose to leave the labor force.



Nor should we ignore the fact that average hourly earnings last month rose 5.1% over the year, the slowest pace so far in 2022.

One key data point in this report that deserves special attention is the unemployment rate for workers without a high school diploma. It's a sensitive leading indicator of economic trends. No group since the economic rebound in April 2020 has experienced a greater drop in joblessness than this demographic. As the economy gathered steam and labor supply thinned, recruiters were willing to reach out and hire those without a high school education. But this group is also the most vulnerable if the economy starts to roll over. June provided that initial warning shot as the unemployment rate for this sector of the labor force leaped up by 0.6%, to 5.8%. It stood at 4.3% just four months ago (February).



One last point needs to be made. To fully appreciate the latest changes in the jobs market, it is important to place June's BLS report in context with other reliable surveys on the labor market. The ISM surveys, for example, have just detected a sharp contraction in employment in both manufacturing and service sectors in June. Thus anyone focusing simply on the latest upward surprise in payrolls is likely missing the larger story. The tide has turned for the economy. Employment conditions are becoming more fragile and the Fed should think twice about being too hawkish at this point.

United States

	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023	I 2024	II 2024	III 2024	IV 2024
Real Gross Domestic Product (GDP):																
%	6.3	6.7	2.3	6.9	-1.6	0.9	1.5	1.1	-1.1	-0.2	1.9	2.3	2.1	3.3	2.4	2.8
Personal Consumption Expenditures:																
PCE %	11.4	12.0	2.0	2.5	1.8	2.1	1.8	2.4	-0.9	1.4	2.6	2.4	2.7	3.8	2.7	2.2
Inflation, end of period, year-over-year:																
CPI %	2.6	5.3	5.4	7.0	8.5	8.7	7.8	6.9	6.6	6.5	6.2	4.5	3.0	2.5	2.5	2.5
Unemployment Rate (end of period):																
%	6.0	5.9	4.7	3.9	3.6	3.6	3.9	4.3	4.6	4.9	4.9	5.2	5.0	4.5	3.9	3.6
Non-farm Payrolls, monthly avg. thousand:																
	513	615	651	365	562	375	290	195	190	190	210	255	275	310	315	325
Treasury 10-yr Note Yield % (end of period):																
	1.75	1.44	1.52	1.51	2.32	2.97	2.90	2.80	2.75	2.80	3.05	3.07	3.07	3.10	3.15	3.20
Federal funds rate % (end of period):																
	0.13	0.13	0.13	0.13	0.38	1.63	2.63	2.88	2.88	2.88	2.88	2.38	2.38	2.38	2.38	2.38

GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
US	2.6	1.6	2.2	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.7	1.2	1.0	2.6
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.7	5.2	1.6	1.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-9.8	7.5	2.9	1.4	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.2	-4.5	1.7	2.1	2.0	1.9
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.3	4.5	2.5	2.3	2.8
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-7.5	9.2	6.7	6.5	7.2
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.2	8.1	4.3	5.2	5.5
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-3.9	4.5	0.9	2.1	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.5	5.0	1.8	1.5	2.7
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	2.8	2.4	2.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-2.9	4.5	-9.0	-2.0	1.9
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	–3.1	5.9	2.8	3.1	4.4