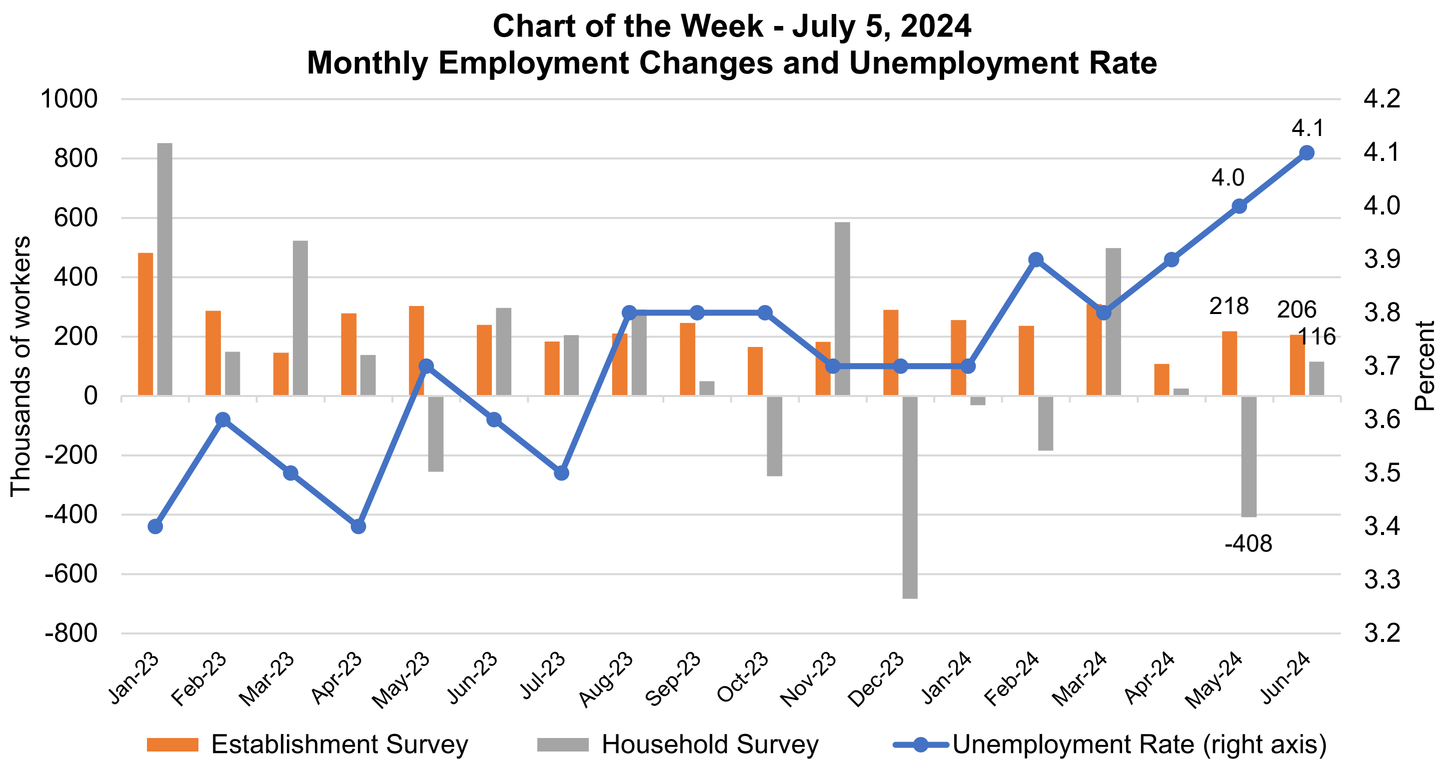

Source: Bureau of Labor Statistics

Once again, the headline gain in nonfarm payroll employment does not tell the entire story. While the headline gain showed an increase of 206,000 jobs in June, government employment accounted for more than one-third of the gain, largely a function of increases in state and local jobs. Although June's increase was above our expectations, both April and May figures were revised down significantly by a combined 111,000 jobs, marking the three-month average down to a 177,000 increase. Furthermore, data from the household survey showing a 116,000 gain in employment continue to present a weaker picture of the job market than the establishment survey data.

Our Chart of the Week shows the recent history of monthly payroll growth from each of the two surveys, along with the unemployment rate, which is from the household survey. The data labels for the past two months show how different the employment gains are between the two surveys, with the household survey showing much less growth. For 2024 to date, the establishment survey shows an average monthly gain of 222,000 jobs, compared to an average monthly gain of just 3,000 in the household survey. For all of 2023, the establishment survey showed an average of 251,000 jobs gained per month, while the household survey showed employment growth of 157,000 workers per month. The weaker story told by the household survey is more consistent with other data indicating that consumers are pulling back on discretionary spending, some households are increasingly falling behind on auto and credit card payments, and measures of business activity are weakening.

Additionally, the unemployment rate ticked up to 4.1 percent in June, the third consecutive monthly increase and the highest unemployment rate since November 2021. Wage gains slowed again to 3.9% on a 12-month basis, and temporary hires actually decreased by 49,000, a sign that business demand for labor is decreasing.

Historically speaking, this is still a tight job market; the unemployment rate is still well below its historical average of around 5.7 percent and other BLS data show that there are still ample job openings per unemployed worker. However, relative to more recent data, the job market is weakening. Inflation data showing more reductions for the next couple of months will be the most important evidence that the Federal Reserve needs to cut rates in September. The current job market data points in that direction once you read below the headline.

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