Global Demographics

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Nearly Universal Good News on Employment

The May labor market report was greeted with many commentators wondering if there were enough synonyms for "excellent" to describe the results. Increases in both payroll and household employment were strong – payroll employment rose by 223,000; household by +293,000. The characteristics of household employment were very strong - the number of persons employed full-time increased by 904,000 while the number of persons employed part-time fell by 625,000. The number of unemployed persons declined by 281,000 and the unemployment rate fell to 3.8%, its lowest level in decades. Long-term employment continued to contract and the underemployment rate (U-6) is at multi-year lows.

The only development that gives us pause is that declines in the labor force in March and April were followed by a paltry increase of only 12,000 in May. May can be a difficult month as the seasonal adjustment factor that is used assumes that students will be entering the labor market as their school term ends, an assumption that is affected both by variations in the scholastic calendar and the timing of the survey week. The not seasonally adjusted increase in the labor force was 485,000 comprised largely of teenagers (16-19 years old) and young adults (20-24 years old). Moreover, monthly changes can be quite volatile and extended periods of weakness are not without precedent (see Chart 1). We do expect better news to be reported for June which would confirm our view that the pool of available workers has not dried up.

For more than four years, the common refrain has been that the labor market is tight and that an acceleration in wage inflation is imminent. The reality is that wage inflation as measured by Average Hourly Earnings (AHE) remains unexceptional (see Chart 2). For the first five months of 2018, the rate of increase in AHE has averaged .21% per month, which is only marginally higher than it was last year (.20% per month) but is below the 0.24% average monthly increase in the first five months of 2016 (see Chart 3).

It is a similar picture for the core PCE deflator (see Chart 4). The March uptick that resulted from the comparison to the cellular phone related decline in March 2017 was supposed to be followed by further advances. It didn't happen. The rate of increase in the core PCE deflator for the first four months of this year is the same as it was in 2016 at 0.19% (see Chart 5). It is conceivable that the trade war initiated by the Trump administration may result in an acceleration in coming months. But it is important to note that an expansion in the trade war is likely to end up being deflationary.

The reality is that the US economy is not displaying any evidence of overheating. There is still room for the economy to recover.

Chart 1

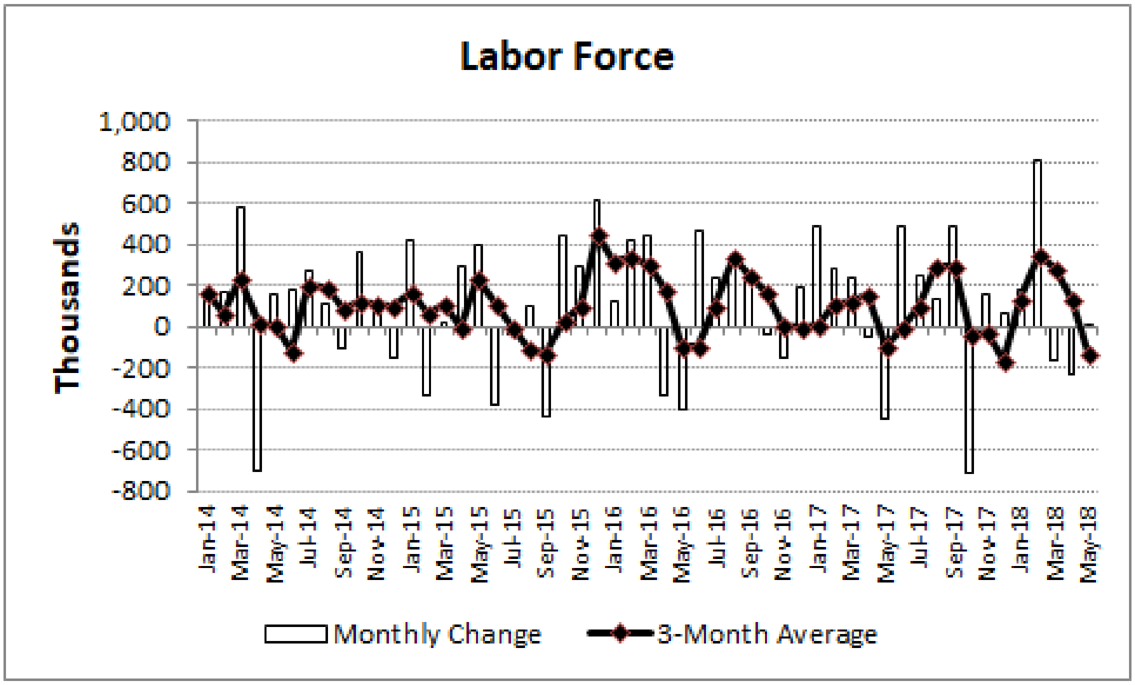


Chart 2

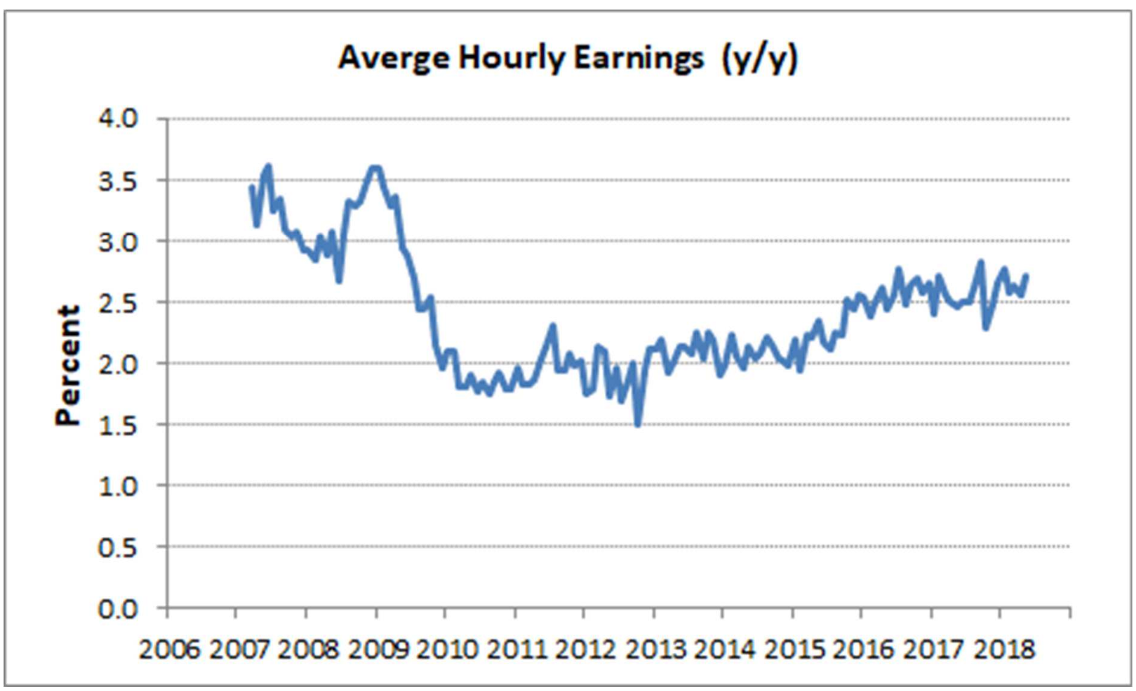


Chart 3

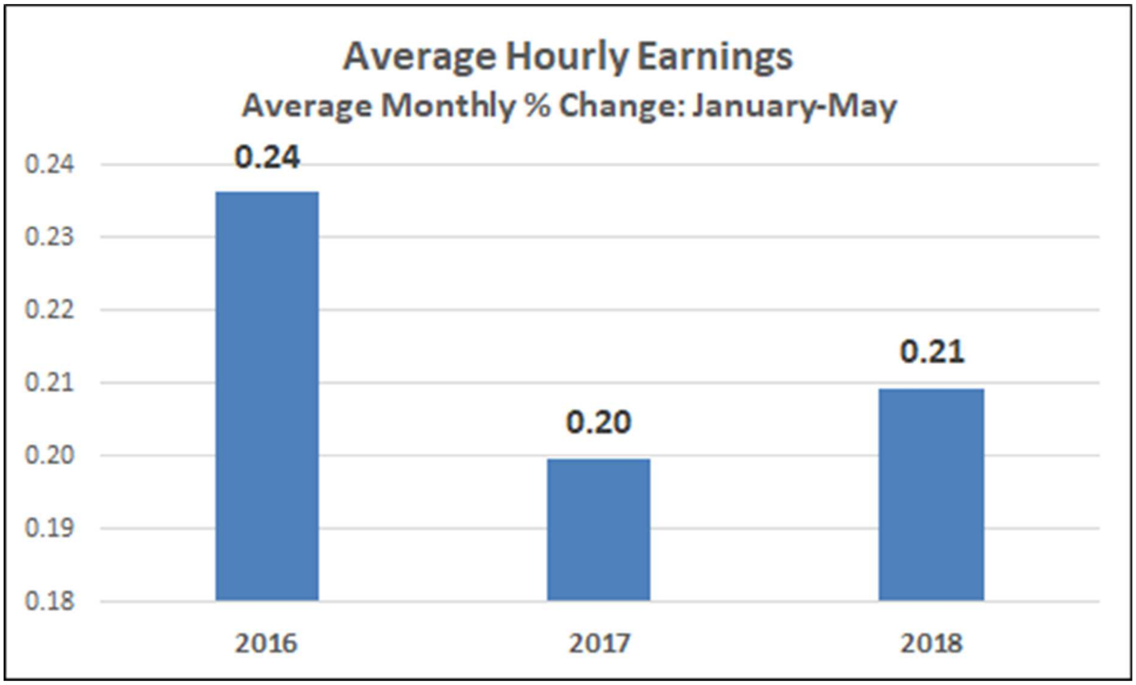


Chart 4

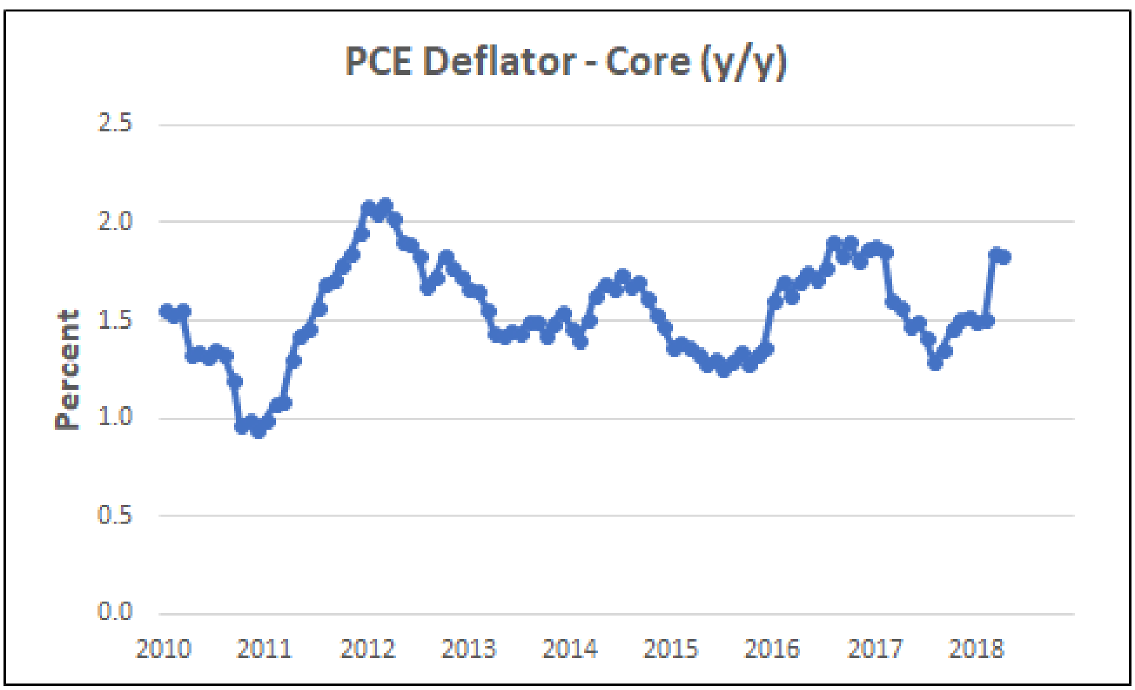
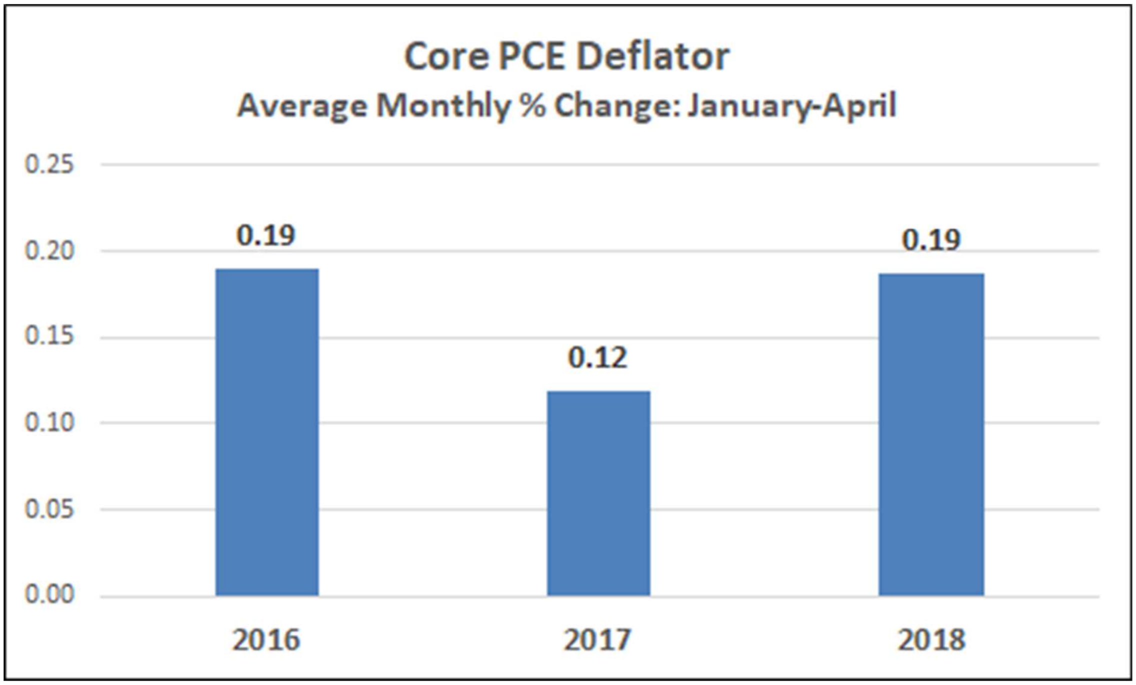


Chart 5


Core PCE Deflator
Average Monthly % Change: January-April
0.25
0.20
0.15
0.10
0.05
0.00
0.19
0.12
0.19
2016
2017
2018