PANTHEON MACROECONOMICS

Datanote: US Employment Report, June

In one line: Weakening in private payroll growth points to multiple rate cuts in H2.

- June payrolls rose 206K, slightly above the consensus, 190K. The net revision was a massive -111K.
- The unemployment rate increased to 4.1%, from 4.0%, above the no-change consensus.
- Average hourly earnings rose 0.3%,

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in line with the consensus. The net revision was -0.03%.

The sluggish 136K increase in private payrolls in June, combined with the huge downward revision to May, to 193K, from 272K, leaves a September rate cut strongly on the table. As in previous months, the increase in headline payrolls was boosted by hefty increases in government and private healthcare jobs, up 70K and 82K, respectively. Private payrolls excluding private education and healthcare rose

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by just 54K, well below the prior six-month average, 101K. Meanwhile, the dominant pattern of downward revisions—the latest estimate of month-to-month growth in payrolls in the 12 months to May is 24K lower on average than the initial estimate—suggests that June's data could look materially worse in a couple months' time. The "several" participants at June's FOMC meeting who "suggested that the establishment survey may have overstated actual job gains" will feel vindicated after today's report.

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Private payroll growth likely will slow even further over the coming months. The trend in jobless claims has continued to deteriorate in recent weeks, hiring and hiring intentions indicators remain depressed, job openings are back to pre-Covid norms, and households have become more fearful that unemployment will rise. Extremely high real interest rates, alongside slowing sales growth, will force more businesses over the coming months to squeeze staffing costs. In

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addition, the flattening in state and local government revenues over the last year suggests that growth in government payrolls will slow in the second half. Accordingly, we continue to expect growth in total payrolls to drop below 100K before the end of Q3 and think that investors are seriously underestimating how quickly the Fed will pivot to reducing rates. After a 25bp cut in September, we continue to look for 50bp easings at both the November and December meetings.

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Meanwhile, the reported month-to-month change of the key numbers in the household survey—employment, unemployment, and participation—were statistically insignificant, as usual. Just 20K people are contacted every month, and only 40% of them now usually reply, down from about 70% a decade ago, so the potential for sampling error is huge. That said, the 0.3pp increase in the unemployment rate over the last six months is significant, and the Sahm rule—a recession indicator with a decent track

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record—now is close to being hit. It will be triggered with a half-point increase in the three-month average of the unemployment rate from its low in the previous 12 months. On this basis, the unemployment rate has now risen by 0.4pp from the low, and it will have increased by 0.5pp in July, if the single-month rate simply remains at June's 4.1% level.

Meanwhile, the 0.29% increase in average hourly earnings looks like a return to the underlying trend. May's

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outsized 0.4% gain seems to have been due, at least in part, to the unwinding of the calendar effect that meant AHE rose at a depressed 0.23% in April. Historically, AHE tended to print below trend when the 15th of the month—pay day for staff paid semi-monthly—was on Monday or Tuesday after the payroll survey week, which was the case in April. The three-month-on-three-month growth rate of AHE dipped to 3.5%, from 3.6%, its lowest rate in over three years, and roughly consistent with the Fed's inflation target given the

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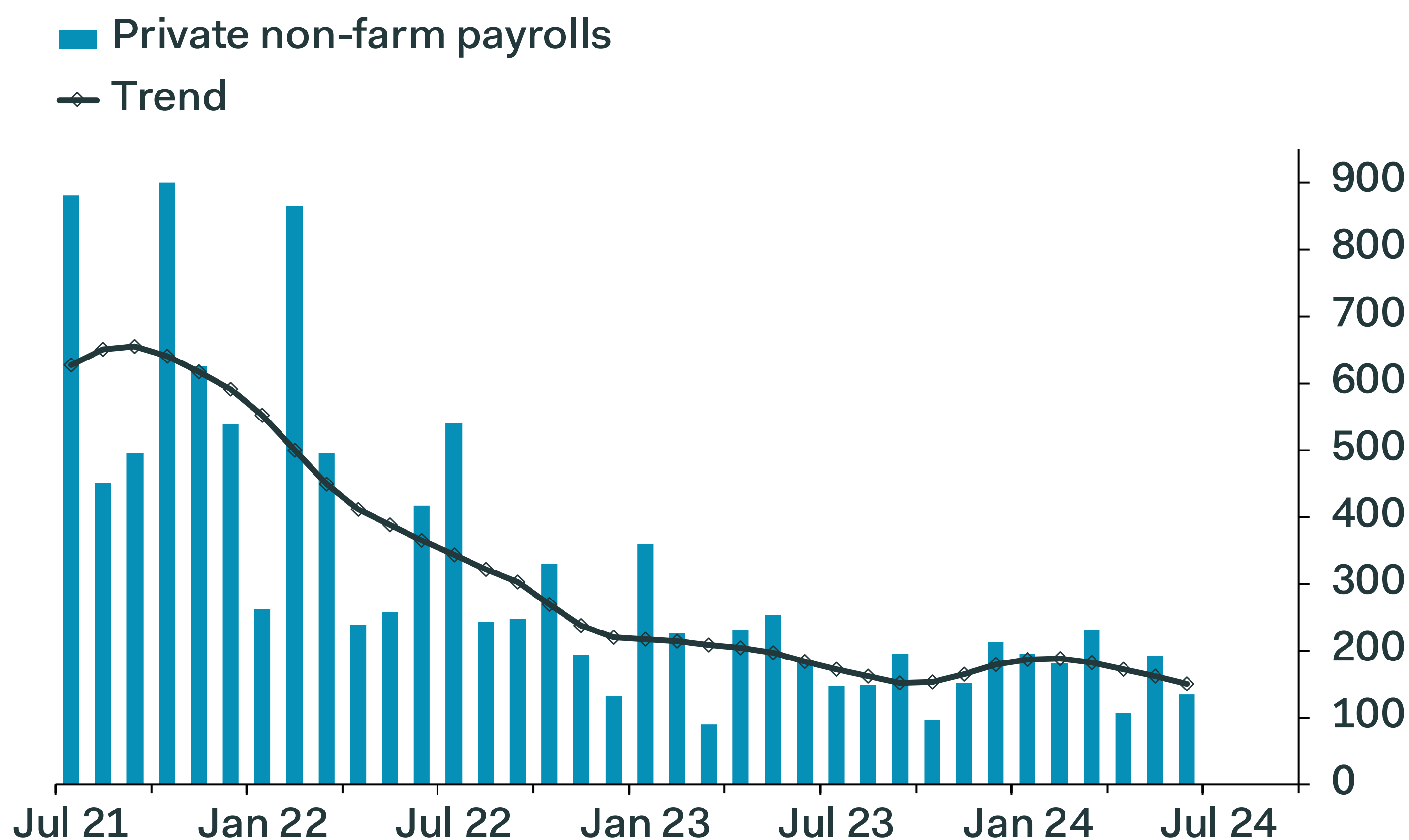
recent strength of productivity growth. That said, the AHE data are not mix-adjusted, so the Fed will mostly ignore these numbers in favor of the quarterly employment cost index, due at the end of this month.



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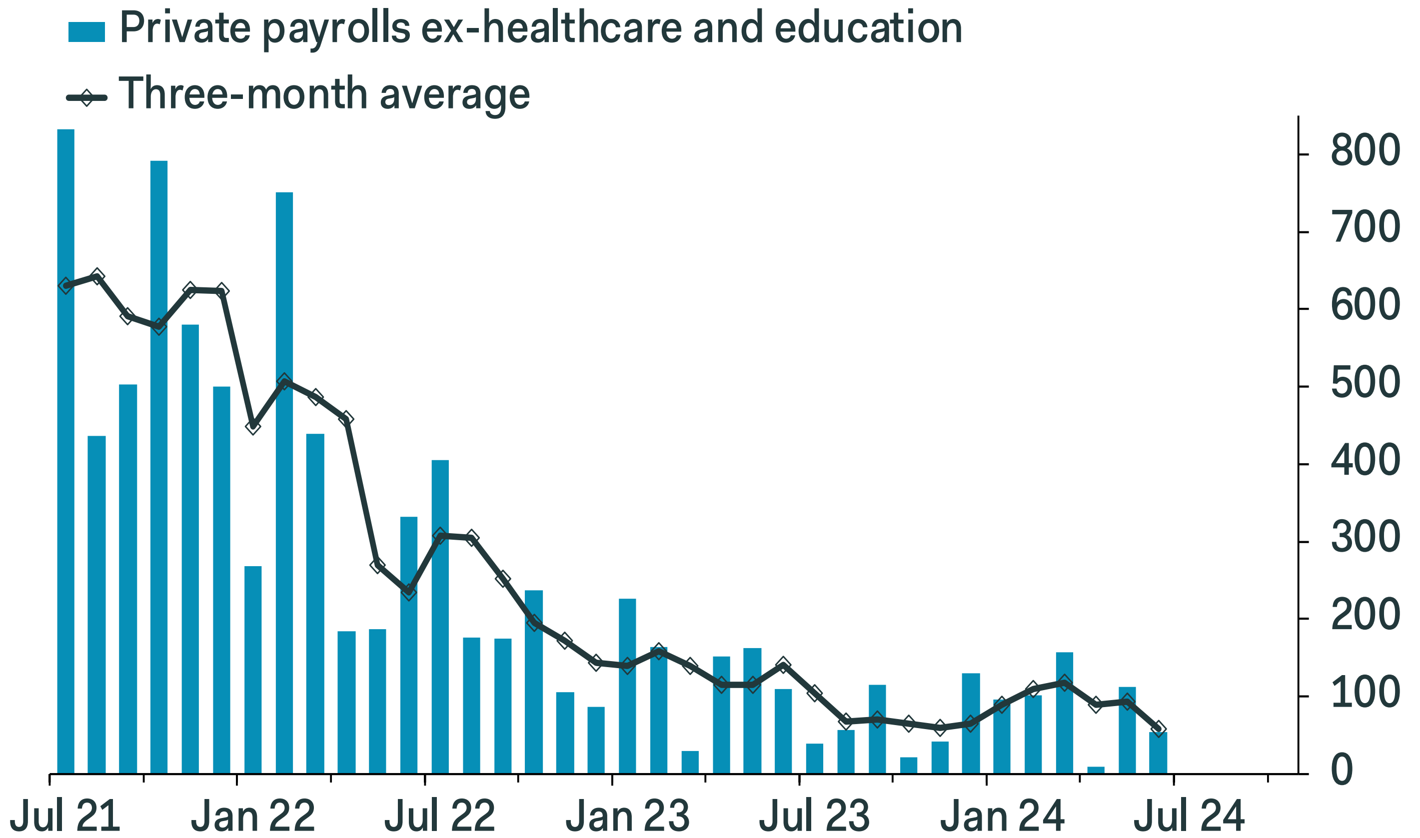

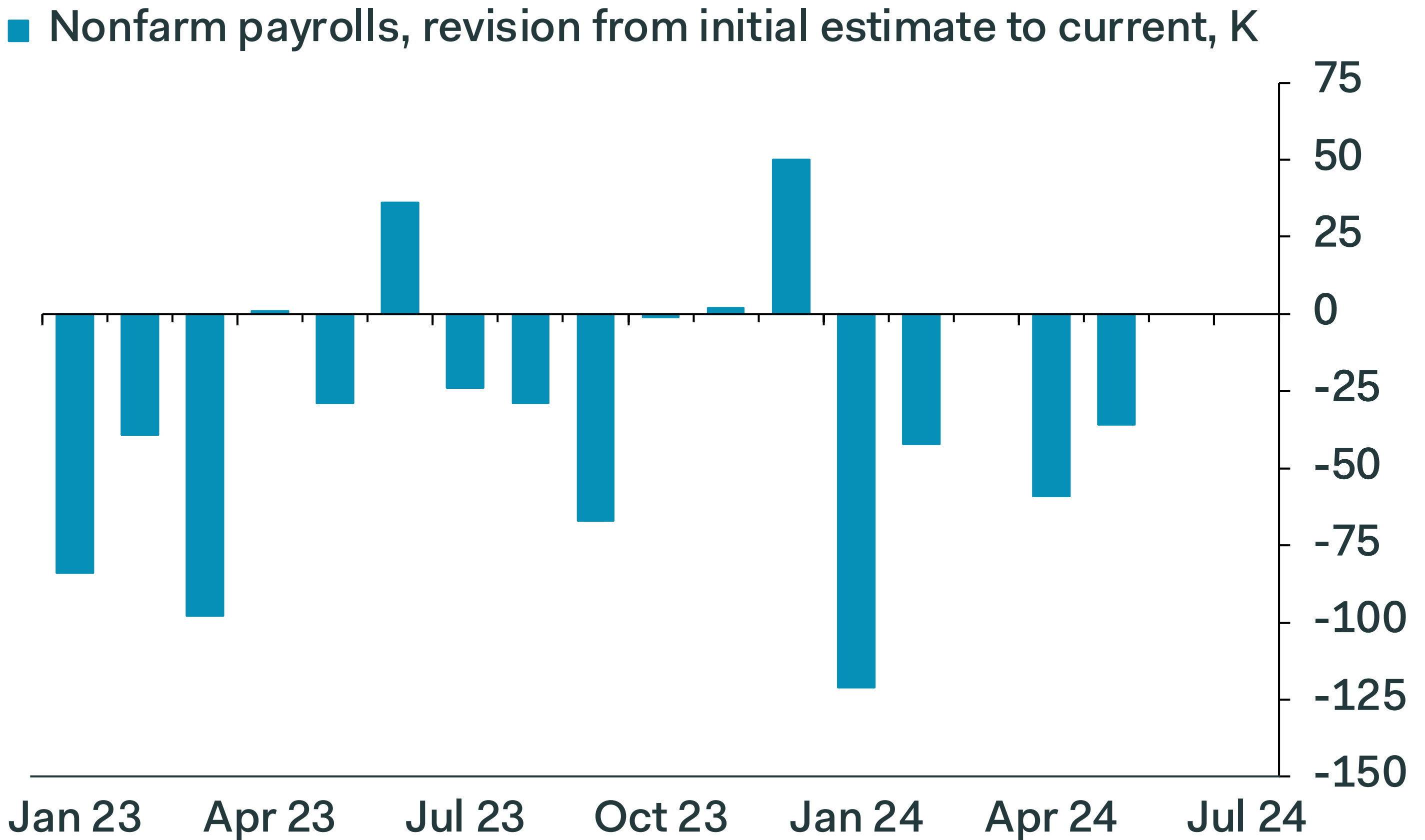

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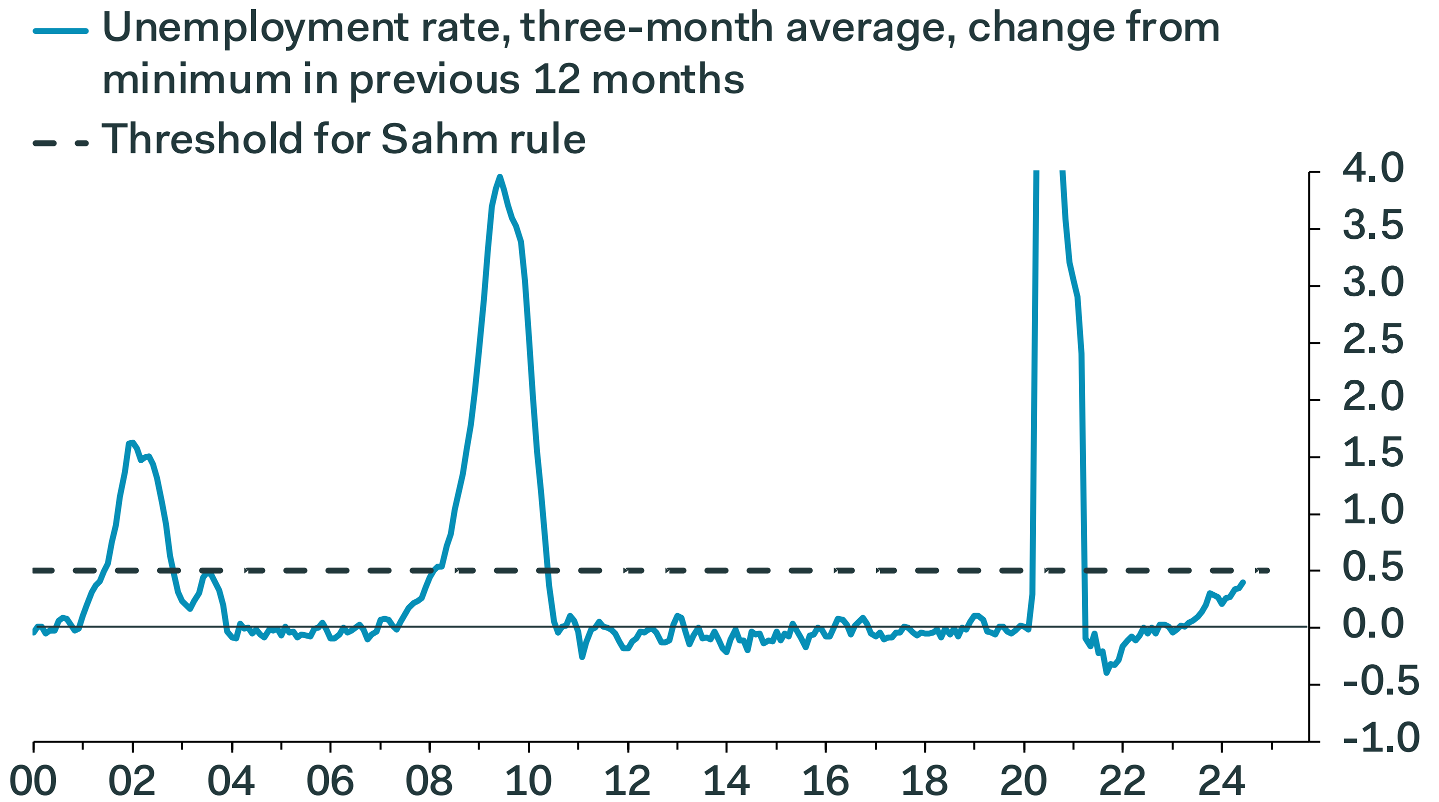

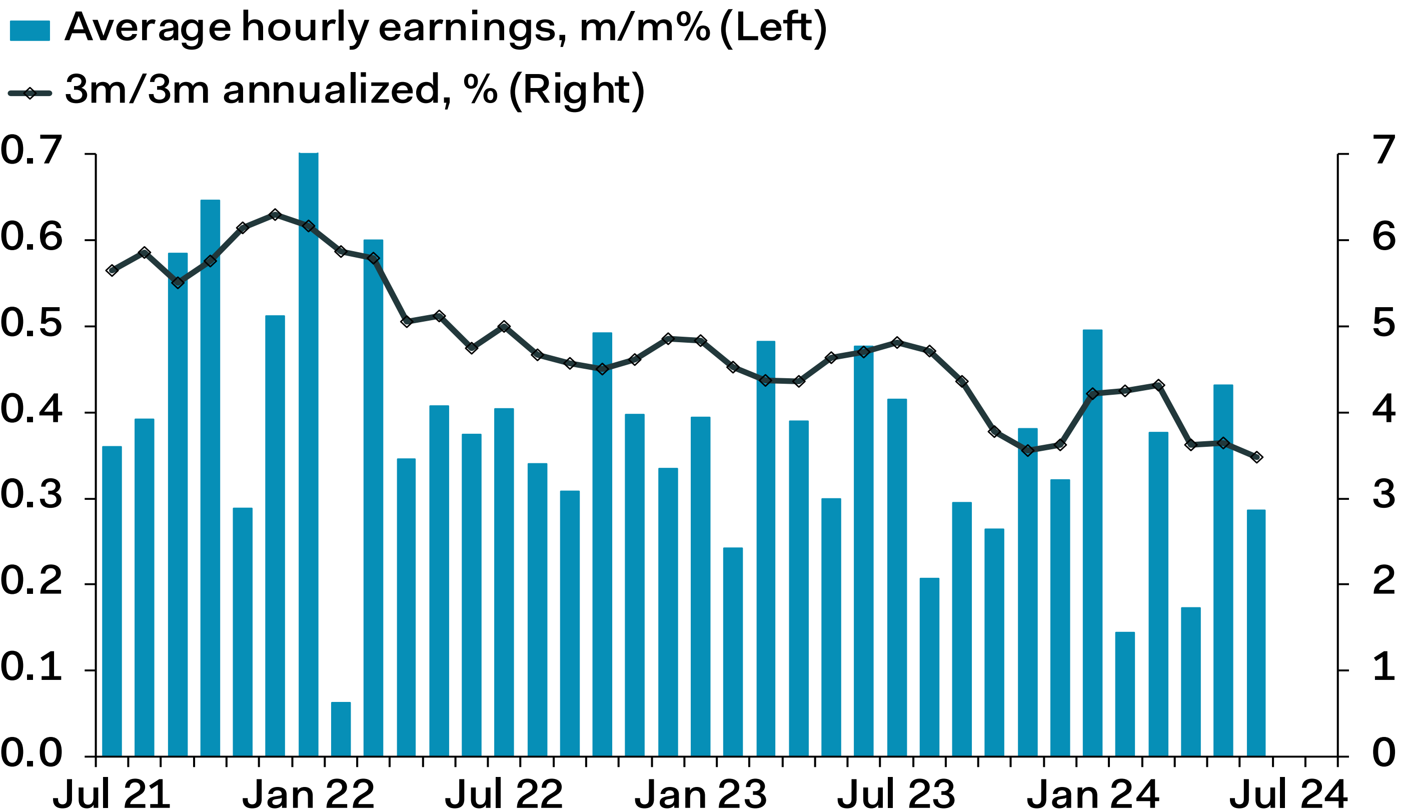

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