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"Morningstar's Best Client Newsletter"

Employment Growth Remarkably Strong in May, Wages Push Higher

- ▶ Job growth, aside from the government sector, has been at a relatively healthy pace.
- ▶ As the unemployment level declines and wage growth increases, the Federal Reserve is more likely to begin raising interest rates later this year.

The U.S economy added 280,000 nonfarm payroll jobs in May, surpassing the consensus estimate of 220,000. Certainly there was some help from the addition of summer jobs in some industries, but generally it was a very strong and clean report. The jobs data also exceeded the 12-month average of about 255,000 jobs per month.

The job growth average for January through April was a mere 200,000 or so jobs added per month, well below the annual averages and a sharp falloff from a very strong autumn. Viewed on a year-over-year, averaged basis, the jobs market has been consistently strong since September 2014. The private sector employment rate has been growing at about a 2.6% rate. Adding in the lethargic government sector, nonfarm payrolls are expanding at a very healthy 2.3% rate.

Month-to-month wage progression was also robust at a 0.3% monthly rate (3.6% annualized) and some previous data was revised, perhaps confirming the overall strength of the jobs market. Though less dramatic, the year-over-year hourly wage growth rates also appear to be improving. Growth in hourly wages and the number of workers added are relatively similar at 2.6% and 2.2%, respectively. While the market always focuses on the jobs number, wage growth is nearly as important. At this stage of the recovery, hours worked provides little help to wage growth and that is the case again now. Combining all three factors, employees, wage rate, and hours worked, total wage growth has been little changed at about 5%.

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