



# JOINT ECONOMIC COMMITTEE

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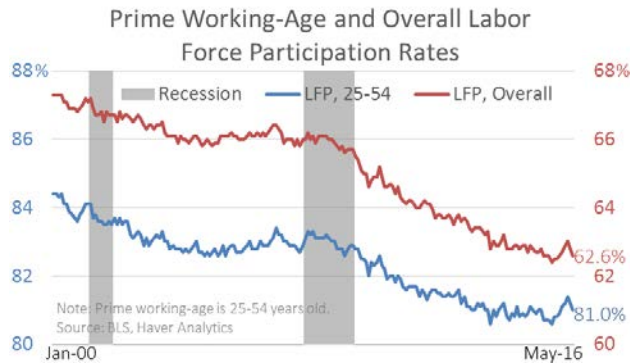
## June 6, 2016, Labor Review: Context for the May Labor Report

Friday’s employment report from the Bureau of Labor Statistics (BLS) shows very weak job growth for the month of May. Nonfarm payroll job numbers grew a mere 38,000, a paltry number compared to growth expectations of 123,000. Private payrolls grew an even smaller 25,000. On the household survey, the unemployment rate fell to 4.7%, largely reflecting a significant number of unemployed workers dropping out of the labor force (-484,000) and a small increase in employed workers (+26,000). The labor force participation rate fell 0.2 percentage point to 62.6%. On the establishment survey, nonfarm payroll job growth was revised down from 208,000 for April to 186,000, and down a combined 59,000 for March (third estimate) and April (second estimate).

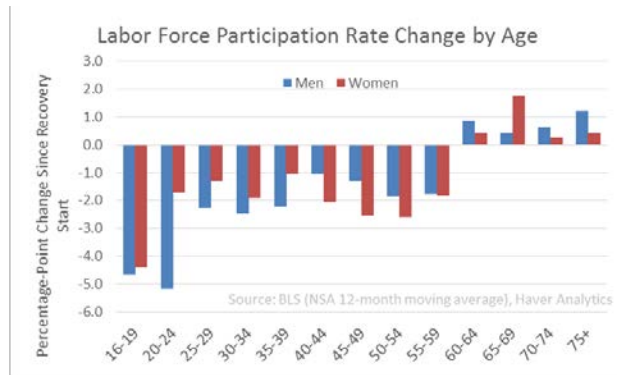
May Jobs Report Data	Previous April Data	Revised April Data	May Forecast	May Data
<i>Establishment Survey</i>				
Nonfarm Payrolls Change	160,000	123,000	158,000	<b>38,000</b>
Private Payrolls Change	171,000	130,000	150,000	<b>25,000</b>
Average hourly earnings (% chg.)	0.3%	0.4%	0.2%	<b>0.2%</b>
<i>Household Survey</i>				
Unemployment Rate (U-3)	5.0%	5.0%	4.9%	<b>4.7%</b>
“True” Unemployment Rate (U-6)	9.7%	9.7%	-	<b>9.7%</b>
Labor Force Participation Rate (%)	62.8%	62.8%	-	<b>62.6%</b>
16-64 years old	73.0%	73.0%	-	<b>72.7%</b>
25-54 years old	81.2%	81.2%	-	<b>81.0%</b>
Employment to Population Ratio (%)	59.7%	59.7%	-	<b>59.7%</b>
Labor Force Change	<b>-362,000</b>	<b>-362,000</b>	-	<b>-458,000</b>
Population Growth (16+ years old)	201,000	201,000	-	<b>205,000</b>

Source: BLS, BEA, Bloomberg Econoday

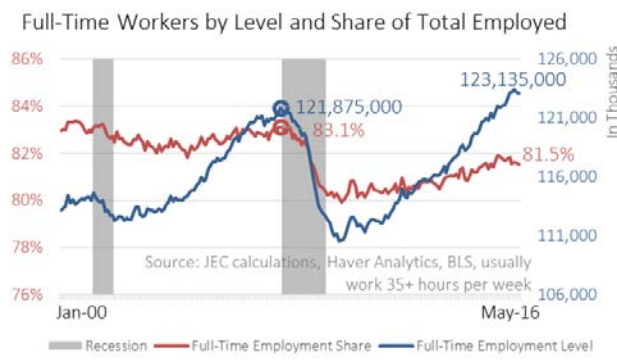
## LABOR TRENDS FOR WORKERS, JOB SEEKERS AND FAMILIES



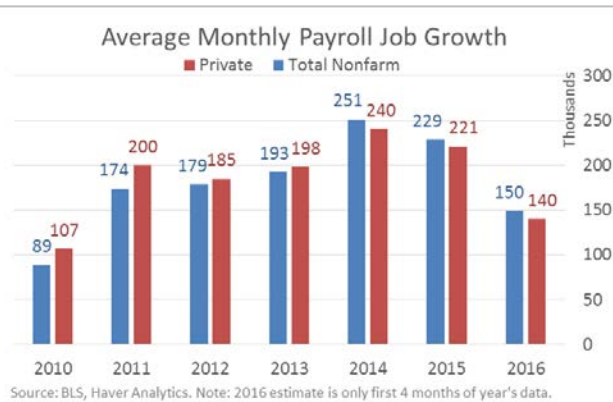
- *The labor force participation rate remains subdued, even among prime-age workers*
  - The labor force participation rate remains significantly below its recovery start, and despite an uptick in previous months, is still down 3.1 percentage points at 62.6%.
  - The rate is also relatively low for 25-54 year olds, down 1.9 percentage points compared to the start of the recovery at 81.0%.



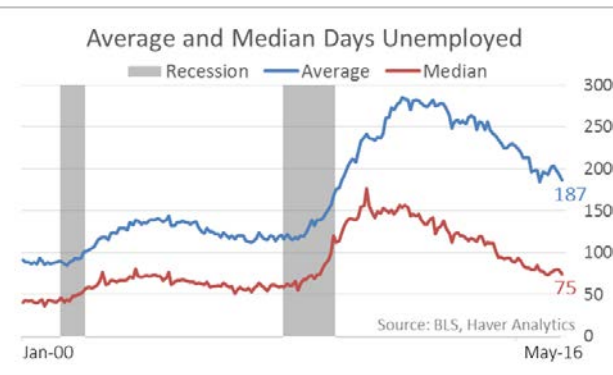
- *Specifically, labor force participation is down among Americans under 60 years old*
  - When broken down into five-year age cohorts, only workers age 60 and older have seen their participation increase since the start of the recovery.
  - By comparison, workers age 59 and younger, particularly ages 16 to 19 and men ages 20 to 24, have seen their workforce participation decline significantly over the course of the recovery.



- *Full-time employment remains subdued as a share of total employed*
  - The share of the employed that are working full-time is still more than a percentage point below pre-recession levels, even though the number of full-time jobs finally passed its pre-recession peak in August 2015.
  - Part-time jobs jumped during the recession and remain elevated by more than 3 million compared to pre-recession levels. As a share of the employed, part-time work is up 1.5 percentage points compared to its pre-recession level.



- *Average monthly job growth slowed in 2015 and the first five months of 2016*
  - Over the past 12 months, nearly 2.4 million nonfarm payroll jobs were added.
  - Nonfarm payroll job growth has fallen to an average of 116,000 jobs per month over the past 3 months, lower than the average of 200,000 jobs per month over the last 12 months.
  - It would take nearly 5.8 million more private-sector payroll jobs added in the remainder of 2016 to close the growth gap in private-sector jobs between this recovery and the average post-1960 recovery, or roughly 830,000 new jobs per month.



- *Long-term unemployment remains elevated*
  - It takes a median 75 days for the jobless worker to find a job or leave the workforce. The average is worse—187 days.
  - As a percent of the jobless, the share of long-term unemployed (27 weeks or more) remains elevated at 25.7% compared to its 40-year, pre-recession average of 14%.

## THE BIGGER PICTURE

The *Wall Street Journal* recently reported that since 2007, job growth occurred within a broad range of fairly low-wage sectors, including the food and beverage services industry (+17%) and home-health care services (+48%). At the same time, many of the declining industries have been middle wage, including specialty trade contractors (-10%). Higher-wage industries have seen growth as well, including computer system design and other information services. Still, although on a declining trend since the recession, [more people work minimum wage or involuntarily part-time](#) than was the case a decade ago.

- In light of the increased discussion of developments in automation, the Joint Economic Committee recently held a hearing, entitled [“The Transformative Impact of Robots and Automation,”](#) in which witness Andrew McAfee noted that entrepreneurs are facing an “increasingly dense thicket of things that an employer or worker has to confront before they can

start something up. And navigating your way through that becomes increasingly difficult, and it looks like more and more people are saying, 'I'm just not going to bother with it.'" McAfee lauded the Silicon Valley notion of "permissionless innovation," which argues for greater ability to innovate without submitting to a bureaucracy or permitting process before proceeding. Read more on automation in the JEC Republican staff analysis, "[Domo Arigato, Mr. Roboto: The Transformative Impact of Automation.](#)"

- In the meantime, hiring at temporary staffing agencies appears to be slowing down so far in 2016, potentially signaling a broader job-market slowdown ahead, as had been the case ahead of the past two recessions. Many look to this particular area in the job market as a leading indicator of cautionary business moves, and it is usually the first place that jobs are lost. Thus far, [27,400 temporary jobs have been lost since December 2015](#), but the trend reversed slightly in April with some job gains. Though this area remains difficult to read, many analysts will pay attention to it over the coming months.
- Federal Reserve Chair Janet Yellen had hinted at a summer federal funds rate hike, provided that the jobs numbers remove doubt of the economy's continued recovery. However, Friday's report has given many analysts pause on expectations for a June rate hike. Indeed, *Bloomberg* noted that the chance that Fed officials would announce an increase in the federal funds target rate in their June 14-15 meeting "[all but evaporated](#)" and may make it difficult to justify a rate increase in July.

## UNDERLYING DETAILS

As aforementioned, though a strike comprising roughly 35,000 telecommunications workers in the month of May resulted in a decline of 34,000 in the information sector, overall the employment report was still quite weak in both the establishment and household surveys.

- BLS reports from the establishment survey that goods-producing jobs fell by 36,000 in May. Among goods-producing industries, durable goods manufacturing jobs fell by 18,000 while payrolls also declined 11,000 in mining and logging, which include oil and gas extraction jobs. Private service-providing jobs grew by only 61,000, with the largest gains in education and health services (+67,000), and government (+13,000). Professional and business services, which has recently shown stronger growth in payroll numbers, grew by only 10,000, with the aforementioned temporary help services declining by 21,000 in May. The Challenger Job Cuts report for May revealed that U.S. [employers announced 30,157 payroll cuts](#), roughly half of April's job cuts.
- This month's household employment numbers also reveal that full-time employment fell again in May, and is currently below its January 2016 level. In contrast, part-time employment has continued to grow, adding 577,000 over 2016 thus far.

In addition, employment for prime-age workers (age 25-54) is also below its April level. The labor force shrank across all age groups.

- ADP's National Employment Report estimates that private-sector employment increased 173,000 in May, with the largest employment gains in the service-providing sector, rising 175,000. Goods-producing jobs fell by 1,000. ADP's employment numbers, though useful, are not necessarily a reliable predictor for actual payroll jobs numbers released by the BLS.
- The ISM manufacturing survey for May indicated that the [manufacturing sector expanded for a third consecutive month](#). However, the employment index remained in contractionary territory at 49.2%, the same reading as April.

The next BLS employment situation report for initial June employment numbers and revisions for April and May data are scheduled for release on Friday, July 8, 2016, at 8:30 a.m. ET.