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Instant Analysis of Today's Employment Report for June

Job Growth Slows in June; +223K vs. Consensus Exp. +233K
Unemployment Rate Drops one tenth to 5.3%
April and May Job Numbers Revised Down a Net -60K
Avg. Hourly Earnings Flat 0.0% (+2.0% y-o-y) Labor Force Participation Drops
Job Growth in Goods Producing Sectors Soft
Business Services (+64K), Ed & Health (+50K), Leisure & Hospitality (+22K)
Trade (+49K), Manufacturing (+4K), and Construction (+0K)
June's Employment Report and Downward Job Revisions Doesn't Rule Out Rate Hike
Market Reaction to Report; USD weakens; S&P 500 +0.3%; 10-Yr Treasury Yield -1 bps 2.41%

The June jobs report came in on the weak-side of economist expectations, revealing a slowdown in job growth to +223K from a downwardly revised +254K jobs in May. However, it remains consistent with a two-steps forward, one-step back expansion the U.S. economy finds itself in. Nothing in this report dissuades me that labor market progress continues- just not as fast as we would all like to see as the second quarter comes to a close.

The highlight, if you can call it that, was the drop in the unemployment rate to 5.3%, keeping the U.S. economy on track for a 5.0 percent unemployment rate before year-end. But even that happened for less than stellar reasons, a sharp drop in the labor force participation rate to 62.6% from 62.9% as the U.S. labor force dropped by -432K in June.

The low light had to be the flat average hourly earnings growth that pushed the year-on-year gain in average hourly earnings back down to 2.0%, where it has been for most of this expansion. No sign yet of renewed nominal wage pressure here.

By sector, we saw moderate job growth in most major sectors of the economy. Business services led the way adding a net (+64K) jobs, education and health (+50K), trade (+49K), leisure and hospitality (+22K), and finance (+20K). Job growth in goods producing industries of the economy disappointed in June with manufacturing adding only (+4K) and construction (+0K). Government jobs didn't add at all to the final jobs tally- also remaining flat on the month (+0K). The breadth of these job gains across sectors suggest a sustainable labor market recovery remains in place.

Bottom-line, the June jobs report is a bit of disappoint when compared to other labor market indicators, like initial jobless claims, which suggested the U.S. labor market was gaining momentum in June. It is however consistent with June purchasing manager indexes (PMI's) which have shown more of a mixed economic picture in the final month of the second quarter. (See my US Outlook Report from last Friday for a discussion) The lack of job growth in construction and weak manufacturing job creation shows the goods-producing side of the economy continues to struggle in the second quarter. The U.S. dollar, weakness abroad, energy sector slowdown and business caution is clearly visible in this payroll report. The June payroll report was not weak enough, in my opinion, to keep the Fed on hold this year, but it will keep them cautious about the outlook and pace of tightening ahead. I am still looking for one rate hike from the Fed this year, though whether that rate hike comes in September or December is a very close call right now, maybe 50-50. It depends on how the economic indicators and payroll reports look in July and August. The market's initial reaction was mixed. S&P 500 futures indicated opening up +0.3%, the 10-year Treasury yields were trading about 1 basis points lower to 2.41 percent, and the US dollar was weaker against most major currencies.