

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Trade Balance	May	↓	\$43.1b	-\$43.5b	-\$43.7b	-\$46.1b R↓
08:30 AM	Change in Nonfarm Payrolls	Jun	↑	213k	195k	195k	244k R↑
08:30 AM	Change in Manufacturing Payrolls	Jun	↑	36k	13k	15k	19k R↑
08:30 AM	Unemployment Rate	Jun	↑	4.0%	3.8%	3.8%	3.8%
08:30 AM	Underemployment Rate	Jun		7.8%	NA	NA	7.6%
08:30 AM	Average Hourly Earnings MoM	Jun	↓	0.2%	0.3%	0.3%	0.3%
08:30 AM	Average Hourly Earnings YoY	Jun	↓	2.7%	NA	2.8%	2.7%
08:30 AM	Average Weekly Hours All Employees	Jun	=	34.5	34.5	34.5	34.5
08:30 AM	Labor Force Participation Rate	Jun	↑	62.9%	NA	62.7%	62.7%

\* ↑ indicates stronger than Consensus estimated, ↓ indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

\*\* Estimate from Bank of the West Economics

\*\*\* Consensus from Bloomberg

\*\*\*\* ↑ means prior reading revised up, ↓ means prior reading revised down

## June Payrolls Surprise To the Upside But Wage Growth Continues to Disappoint

Another strong monthly jobs gain in June, boosted by stepped-up job creation in manufacturing. The goods producing side of the economy has been adding a net 50k+ jobs a month to non-farm payrolls since April. Today's job numbers keeps the Goldilocks story of this economic expansion alive. No sign of negative trade war impacts on the labor market so far, though we do suspect will begin to see some in the third quarter data.

Total nonfarm payrolls rose by a better-than-expected 213,000 in June, down from an upwardly revised 244,000 in May but well above the consensus estimate of 195,000. Employment has grown by 2.4 million over the past 12 months, an average monthly increase of 200,000. Moreover, the prior two months were revised higher by a total of 37,000 jobs. Among major sectors, employment in professional and business services increased by 50,000 in June, manufacturing added 36,000 and health care rose by 25,000. Retail lost 22,000 jobs, largely offsetting the 25,000 retail payroll increase in May.

The unemployment rate rose by two-tenths of a percentage point to 4.0% in June, above economists' expectation for the rate to hold steady at 3.8%. However, the increase in the unemployment rate was due to a rise in the labor force participation rate from 62.7% in May to 62.9% in June, as 601,000 people entered the labor force. A more comprehensive measure of unemployment that includes discouraged workers and those working part-time jobs for economic reasons also rose two-tenths to 7.8%.

The big disappointment in today's employment report has to be the average hourly earnings growth slowdown. Average hourly earnings for all workers rose by just 0.19% month-over-month in June, below the consensus estimate of 0.3%. On a year-ago basis, average hourly earnings are up 2.7%, unchanged from May. But the 3-month annualized average hourly earnings growth is even worse at just 2.62%. Sluggish wage growth continues despite the economy being at full employment.

The increase in the labor force and unemployment rate combined with lackluster earnings growth last month adds weight to the argument that there is still invisible slack in the labor market that can be absorbed. Today's



jobs report should keep the Fed on a gradual tightening path this year and into 2019. We still expect the Fed to raise rates two more times in 2018 – for a total of four increases – and once more in 2019 before pausing.