



June 10, 2024

Morning Briefing

To Tell The Truth

Check out the accompanying [chart collection](#).

Executive Summary: How the labor market is doing is critical to the Fed's setting of monetary policy given its dual mandate to steer the economy away from both too-high unemployment and too-high inflation. But gauging how the labor market is doing can be a stumper: Two different employment indicators point in different directions. ... Less ambivalent are the indicators of wage inflation: All point to continued moderation. ... We believe the labor market has been normalizing to its pre-pandemic state and remains robust. But what the Fed makes of the labor data and may do in response is another stumper. We'd like to see it keep monetary policy as is for now. ... And: Dr. Ed reviews "A Gentleman in Moscow" (+ + +).

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US Labor Market I: Pick One Measure of Employment. "[To Tell the Truth](#)" was a television game show broadcast by CBS from 1956 to 1968. Four celebrity panelists had to question three contestants to determine which one of them was telling the truth about their unusual occupation or experience. The two imposters had to lie, while the Real McCoy had to tell the truth.

On Friday, we learned that payroll employment rose 272,000 in May, while household employment fell 408,000 during the month. Which one is telling the truth about the economy? The first measure counts the number of jobs, including full-time and part-time ones. The second measure includes the number of people with jobs, no matter whether they have one or more. So one payroll employee with two jobs counts as two jobs in the payroll employment data but only one employee in household employment.

The two series' discrepancy in May is nothing new. They've been diverging for a while ([Fig. 1](#)). Since January 2022 through May 2024, payroll employment is up 3.9 million, while household employment is up 5.3 million.

So, again, which one is telling the truth? We choose the payroll measure because it is based on employment as reported by a sample of employers, while the household measure is based on phone interviews of a sample of households. The ratio of the former to the latter has been trending higher from about 75% at the start of the 1950s to 98.4% currently ([Fig. 2](#)).

One possible reason for this development is that more Americans don't feel comfortable sharing their employment status over the phone with a government employee. Another possible explanation is that the self-employed are counted in the household measure but not in the payroll one. Perhaps self-employment has been growing less rapidly than payroll employment. Furthermore, perhaps more people are working two or more part-time jobs.

We also prefer the payroll measure because it is the one used by the Bureau of Economic Analysis to calculate wages and salaries in personal income, which tends to be highly correlated with retail sales and personal consumption expenditures. Consider the following:

(1) *Aggregate hours worked.* Payroll employment excluding government rose 229,000 during May, or 0.2% m/m. The average workweek in private industry remained unchanged at 34.3 during May ([Fig. 3](#)). As a result, the aggregate hours worked in private industry edged up 0.2% to 4.6 billion hours during May ([Fig. 4](#)). That matches March's record high. This series has been zigzagging to new record highs since January 2022.

(2) *Earned Income Proxy.* Average hourly earnings rose 0.4% m/m in May. So our Earned Income Proxy (EIP) for the private wages & salaries component of personal income rose 0.6% m/m to a new record high in May ([Fig. 5](#)). This suggests that personal income rose to another record high in May. Private wages & salaries currently account for 43.7% of personal income ([Fig. 6](#)).

(3) *EIP and consumer spending.* The rebound in our EIP to a record high during May suggests that May's consumer spending data should rebound too ([Fig. 7](#)). Retail sales were flat during April ([Fig. 8](#)). They probably increased in May, as confirmed by the 13,000 rise in retail trade employment during the month ([Fig. 9](#)).

(4) *Aggregate hours in manufacturing.* During May, aggregate weekly hours in manufacturing rose by 0.5% m/m ([Fig. 10](#)). That suggests that manufacturing production increased last month after falling 0.3% during April. However, the trend in manufacturing production continues to be sideways.

(5) *Payroll employment by industries*. Meanwhile, services-providing industries continue to account for most of the employment gains. Private services-providing employment rose 204,000 in May, led by a 68,300 increase in health care and social assistance ([Fig. 11](#)). Government employment increased 43,000. Even goods-producing industries managed to increase their payrolls by 25,000, with 21,000 more construction and 8,000 more manufacturing jobs.

In other words, May's payroll employment report was a solid one and consistent with the robust labor market developments since the start of this year. During the first five months of this year, employment in the private sector's services-providing and goods-producing industries and in government employment are up 893,000, 103,000, and 243,000 ([Fig. 12](#)).

The surge in immigration might account for some of the employment gains among local governments (357,000) and among health care and social assistance industries (1.0 million ytd). These may be needed to provide the "newcomers" with support.

US Labor Market II: Pick One Measure of Wage Inflation. Unlike the contradictory payroll and household employment data, the wage data that came out with the employment report remain consistent with alternative measures of wages. On balance, they are all showing that wage inflation is continuing to moderate. In the past, Fed Chair Jerome Powell has said that he would like to see them come down closer to 3.0% than 4.0%. Let's see where they are now:

(1) *Average hourly earnings (AHE)*. AHE rose 4.1% y/y for all workers through May ([Fig. 13](#)). It rose 4.2% y/y for production and nonsupervisory workers, who account for about 80% of payroll employment. Both are down sharply from their 2022 peaks of 5.9% and 7.0%.

Both series have declined since 2022 along with the quits rate. That's because most workers who quit for another job do so for better pay. Apparently, more workers are satisfied with their current pay than they were in 2022.

(2) *Hourly compensation (HC)*. Q1's HC is the most comprehensive measure of pay and the most volatile. Last week on Thursday, Q1's quarterly HC inflation rate was revised down from 5.0% to 4.2% (saar). Q4's rate was slashed from 3.5% to 0.6%!

We focus on the y/y inflation rate, which also tends to be quite volatile ([Fig. 14](#)). During Q1, it edged below 4.0% to 3.8%.

(3) *Employment cost index (ECI)*. The ECI is also a quarterly series. Its wages & salaries inflation rate closely tracks the monthly AHE inflation rate when both are expressed on a y/y basis ([Fig. 15](#)). During Q1, ECI wages and salaries rose 4.3%, down from the 2022 peak of 5.6%.

(4) *Wage Growth Tracker (WGT)*. The Atlanta Fed's [WGT](#) remained relatively high at 4.7% y/y during March, using non-smoothed data ([Fig. 16](#)). But it is down from 7.4% in June 2022.

(5) *Bottom line*. All the wage inflation measures we follow continue to moderate, but mostly remain above 4.0%. Our favorite measure is unit labor costs (ULC), which is hourly compensation divided by productivity ([Fig. 17](#)). ULC on a y/y basis is an excellent measure of the underlying inflation rate in the labor market.

Not surprisingly, the PCED inflation rate tends to fluctuate around it. The ULC inflation rate was down to just 0.9% in April! Debbie and I continue to expect consumer price inflation to fall to 2.0% by the end of this year.

By the way, since February 2020 (just before the pandemic lockdown) through May of this year, real wages of all workers and lower-wage workers rose 3.4% and 5.6%, respectively ([Fig. 18](#)). The real wages of higher-wage workers fell 3.7%. That's counter to the widely held view that lower-wage households have been hit harder than higher-income ones by the post-pandemic inflation spike.

US Labor Market III: Pick a Fed Scenario. So what should Fed officials do? Economists who believe that the household employment survey is more accurate than the payroll employment survey would conclude that the labor market is weakening and that the Fed should start to lower the federal funds rate sooner rather than later to avoid causing a recession.

We believe that the labor market remains robust, as evidenced by the payrolls data and confirmed by low initial and continuing unemployment claims. Job openings have declined in six of the past eight months, but they remain plentiful ([Fig. 19](#)). In our opinion, the labor market has been normalizing, as evidenced by the decline in the quits rate that suggests less dissatisfaction among workers with their jobs and their pay than during the pandemic. Fewer quits explains why there are fewer job openings!

Here is what we suggest Fed officials do: They should take the rest of the year off. The unemployment rate has remained at 4.00% or less for the past 30 months ([Fig. 20](#)). Yet over this very same period, the AHE wage inflation rate has dropped from 5.0% to 4.1% y/y currently. The headline PCED inflation rate has dropped from 6.2% to 2.7% y/y currently. In other words, the current level of interest rates seems to be consistent with the Fed's dual mandate, requiring the Fed to keep both unemployment and inflation low.

Movie. "A Gentleman in Moscow" (+ + +) ([link](#)) is a fictional tale about Count Alexander Rostov, who is stripped of his title and wealth and placed under house arrest for life in a grand Moscow hotel. This all occurs in Russia following the revolution of 1917 during which the monarchy was abolished and the government imposed socialism on its citizens. Most of the miniseries occurs during the rule of Stalin. It's a good civics lesson, illustrating how socialism can quickly turn into tyranny. Ewan McGregor provides an outstanding performance as the Count.

Calendars

US: Mon: None. **Tues:** NFIB Small Business Optimism Index 89.7; API Weekly Crude Oil Inventories; OPEC Monthly Report; EIA Short-Term Energy Outlook. (FXStreet estimates)

Global: Mon: Eurozone Sentix Investor Confidence -1.5; Italy Industrial Production 0.3%; Lane; Elderson; Nagel. **Tues:** UK Unemployment Rate 4.3%; UK Claimant Count Change 10.2k; UK Average Earnings Including Bonus 5.7%; Japan PI 0.4%/m/m2.0%/y/y; China CPI & PPI 0.4%/-1.5% y/y. (FXStreet estimates)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index has posted gains in 23 of the past 34 weeks after trading below its prior (December 27, 2021) record high for 25 months. Last week's gain of 1.2% was its first in three weeks. The US MSCI finished the week just 0.2% below its Wednesday record high. The AC World ex-US index rose 0.9% w/w to 7.4% below its June 15, 2021 record high, and is just 1.4% below its 28-month high on May 20. EM Asia was the best performing region last week with a gain of 3.3%, followed by EM (2.3%) and the AC World ex-US. EM Latin America was the worst regional performer with a decline of 4.5% last week, followed by EMEA (-0.1), EAFE (0.6), EMU (0.6), and

Europe (0.8). Among the major selected country markets that we follow, Korea performed the best last week with a gain of 5.9%, followed by Taiwan (4.6), India (3.6), Switzerland (2.5), and China (1.5). The worst country performers last week: Mexico (-10.5), Canada (-2.0), Brazil (-1.7), South Africa (-0.6), and the United Kingdom (-0.4). The 11.6% ytd gain for the MSCI United States remains well ahead of the AC World ex-US index (5.2). EM Asia jumped back ahead of the pack as the leading region ytd with a gain of 8.7%, which puts it ahead of EMU (7.8), Europe (7.1), EAFE (5.9), and the AC World ex-US. The worst performing regions so far in 2024: EM Latin America (-16.1), EMEA (-3.4), and EM (4.8). Looking at the major selected country markets that we follow, Taiwan is far and away the best ytd performer with a gain of 20.6%, followed by India (12.8), the United States (11.6), Spain (10.1), and China (7.9). The worst performing countries so far in 2024: Brazil (-19.5), Mexico (-16.2), Hong Kong (-6.5), South Africa (-6.3), and Korea (-2.9).

US Stock Indexes ([link](#)): Investors sold the SMidCap indexes last week and rotated back into the LargeCap growth-style indexes. Just 20 of the 48 major US stock indexes that we follow rose, down from 22 rising a week earlier. The S&P 500 LargeCap Growth index was the best performer for the week with a gain of 2.8%, followed by Russell 1000 Growth (2.7%), Nasdaq 100 (2.5), Russell 3000 Growth (2.5), and Nasdaq Composite (2.4). These four indexes were the worst performers, all with a decline of 2.8%: Dow Jones 15 Utilities, S&P 400 MidCap Pure Value, S&P 600 SmallCap Pure Growth, and S&P 600 SmallCap Pure Value. Looking at their ytd performances, 37 of the 48 indexes are higher so far, but that's down from 47 at the end of March. The S&P 500 LargeCap Growth index is now the best performer so far in 2024 with a gain of 18.4%, ahead of S&P 400 MidCap Pure Growth (16.8), Russell 1000 Growth (15.8), S&P 100 MegaCap (15.1), and Russell 3000 Growth (15.1). The worst performing major US stock indexes ytd: Dow Jones 20 Transports (-5.5), S&P 600 SmallCap Value (-5.4), S&P 600 SmallCap Pure Value (-4.9), S&P 600 SmallCap Equal Weighted (-3.9), and S&P 400 MidCap Pure Value (-3.2).

S&P 500 Sectors Performance ([link](#)): Five of the 11 S&P 500 sectors rose last week, and four outperformed the S&P 500's 1.3% gain. That compares to six sectors rising a week earlier when seven were ahead of the composite index's 0.5% decline. Information Technology was the best weekly performer with a gain of 3.8%, followed by Health Care (1.9%), Communication Services (1.7), and Consumer Discretionary (1.5). The underperformers last week: Utilities (-3.9), Energy (-3.5), Materials (-2.0), Industrials (-1.0), Financials (-0.5), Real Estate (-0.2), and Consumer Staples (0.5). The S&P 500 is up 12.1% ytd with 10 of the 11 sectors in positive territory, but only two ahead of the index. That's down from five sectors ahead of the index during mid-May. Communication Services is the best ytd performer, with a gain of 22.5%, ahead of Information Technology (21.4). These

sectors are lagging the S&P 500 so far in 2024: Real Estate (-5.6), Consumer Discretionary (1.9), Materials (4.4), Energy (6.8), Industrials (7.1), Health Care (7.1), Consumer Staples (8.6), Utilities (9.7), and Financials (9.9).

US Economic Indicators

Employment ([link](#)): Employment was stronger than expected in May, while there were small downward revisions to both April and March jobs. Payroll employment advanced 272,000 (vs 185,000 expected), higher than the average monthly 232,000 increase over the prior 12 months. May's gain was above the expected range from 120,000 to 158,000. Revisions show both April (to 165,000 from 175,000) and March (310,000 from 315,000) payroll increases were lower than previously reported, with a net loss of 15,000 over the two-month period. Private payroll employment added 229,000 in May, higher than the 170,000 expected and accelerating from April's 158,000 increase. Meanwhile, government jobs increased 43,000, in line with the average monthly gain over the previous 12 months, but considerably above April's 7,000 gain. Private service-providing industries increased 204,000 in May, led by health care, which added 68,000 jobs—in line with the average monthly gain of 64,000 over the prior 12 months. Once again, ambulatory health care services (43,000) posted a solid gain, while payrolls at hospitals (15,000) and nursing and residential care facilities (11,000) increased at a slower pace than the prior month. Leisure & hospitality employment continued to trend higher, climbing 42,000, a bit above the average monthly advance of 35,000 the prior 12 months. Employment in food services & drinking places continued its uptrend, rising 25,000. Professional, scientific, and technical services saw employment rise 32,000 in May, nearly double the average monthly gain of 19,000 over the prior 12-month period. Meanwhile, social assistance jobs advanced 15,000, primarily individual and family services (11,000), while retail trade employment climbed 13,000, slightly above the 8,000 average monthly gain the prior 12 months. Goods-producing jobs rose 25,000 in May, led by construction (21,000), while manufacturing (8,000) jobs were little changed and mining & logging (-4,000) jobs slipped a bit.

Wages ([link](#)): Average hourly earnings (AHE) for all workers on private payrolls increased 0.4% in May (vs 0.3% expected). The yearly rate ticked up to 4.1% from 4.0% y/y in April—which was the lowest rate June 2021. The rate reached a recent high of 5.9% during March 2022. Private industry wages rose 4.0% (saar) over the three months through May, accelerating from the 3.0% rate during the three months through April. Service-providing industries showing three-month rates above their yearly rates: professional & business services (4.9% & 4.3% y/y), wholesale trade (4.7 & 3.5), and leisure & hospitality (4.6 &

4.1). Service-providing industries showing three-month rates below their yearly rates: retail trade (1.6% & 2.7% y/y), transportation & warehousing (1.7 & 5.0), information services (2.0 & 2.5), utilities (2.4 & 2.7), other services (2.6 & 4.0), and financial services (4.6 & 5.7). Meanwhile, the three-month annualized rate and yearly rate in education & health services (3.1 & 3.2) were nearly identical. Within goods-producing industries, for manufacturing, the annualized three-month rates are slightly below their yearly rates for both durable goods (5.4% & 5.8%) and nondurable goods manufacturing (3.2 & 3.6).

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, rose 0.6% in May to a new record high. Average hourly earnings in May advanced 0.4%, while aggregate weekly hours rose 0.2%—with private payroll employment increasing 0.2% and the average workweek unchanged. Over the past 12 months, our EIP advanced 5.4%—with aggregate weekly hours up 1.3% and average hourly earnings up 4.1%.

Unemployment ([link](#)): The number of unemployed rose 157,000 to 6.6 million in May, with the unemployment rate climbing to 4.0%—the first time it has reached that rate since January 2022. It had been fluctuating in a narrow range of 3.7% to 3.9% since August 2023. Household employment fell 408,000 in May, while the labor force was 250,000 lower than in April. The participation rate dropped to 62.5% in May from 62.7% in April and March. By race: The unemployment rates for African Americans (to 6.1% from 5.6%), Hispanics (5.0 from 4.8), and Asians (3.1 from 2.8) all rose in May, while the rate for Whites was unchanged at 3.5%. By education: The unemployment rates dipped in May among those with a bachelor's degree or higher (2.1 from 2.2), some college or an associate degree (3.1 from 3.3), and those with less than a high school degree (5.9% vs 6.0%). Meanwhile, the rate for those with a high school degree (4.3 from 4.0) moved higher during the month.

Global Economic Indicators

Eurozone Retail Sales ([link](#)): Eurozone retail sales fell more than expected in May. Sales contracted 0.5% last month after a 0.7% gain in April, on widespread weakness. The components of retail sales show spending on automotive fuels (-2.2%), food, drinks & tobacco (-0.5), and non-food products ex fuel (-0.1) were all in the red. Versus a year ago, overall retail sales were flat, after rising 0.7% y/y in March, following a string of negative readings. Sales of food, drinks & tobacco sank back below zero, falling 0.5% in April after increasing 1.0% in March—also after a string on negative readings. Non-food products ex fuel rose by 0.4%, slowing from March's 0.7% gain, while automotive fuels (0.3) moved

back into positive territory after dipping into negative territory the prior two months. April data are available for the Eurozone's four largest economies: Spain (0.8% m/m & 0.5% y/y) posted gains on both monthly and yearly bases; sales in Germany (-1.2 & -0.8) showed the biggest monthly loss; sales in Italy (-0.2 & -1.2) showed the biggest yearly decline; and sales in France (-0.4% m/m & 1.9% y/y) fell fractionally on a monthly basis but recorded the biggest monthly gain.

Germany Factory Orders ([link](#)): Germany factory orders unexpectedly fell in April, led by large-scale orders, posting its fourth consecutive monthly decline. Factory orders contracted 0.2% (vs +0.3% forecast), though the decline slowed from March's 0.8% loss. During April, both domestic orders (-0.3%) and foreign orders (-0.1) slipped—with orders from within the Eurozone dropping 1.4% and those from outside the Eurozone rising 0.6%. Excluding large-scale orders, billings in April expanded 2.9%. Orders in the four sectors within manufacturing shrank, led by transportation equipment—aircraft, ships, and trains—(-15.4), computer, electronic, and optical products (-5.1), electrical equipment (-4.1), and manufacture of machinery & equipment (-1.5). Meanwhile, orders in the automotive industry rose 4.1%. By sector, both consumer (0.7) and capital (0.5) goods orders rose, while intermediate (-1.7) goods order fell during the month.

Germany Industrial Production ([link](#)): German industrial production was weaker than expected in April. Germany's industrial production fell 0.1% March (vs +0.3% expected), after a 0.4% drop in March. Excluding energy and construction, production edged up 0.2%. By sector, both capital and consumer goods production rose 0.8%, while intermediate goods production fell 0.9%. Energy production logged a 1.6% increase in April, while construction output sank 2.1%. Overall output fell 3.9% y/y, easing from March's 4.3% shortfall.

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