Yardeni Research

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Morning Briefing

Americans Are Still Working For A Living

Check out the accompanying chart collection.

Executive Summary: Over the past three and a half years, the US economy has defied the recession expectations of many, remaining uncommonly resilient in the face of stress tests including Fed tightening, an oil price spike, and most recently Trump's Tariff Turmoil. The economy's strength despite these formidable challenges supports our base-case Roaring 2020s scenario (to which we assign 75% odds) and our still bullish S&P 500 targets. … A big reason for the economy's impressive resilience is that the labor market has remained impressively resilient. Americans are working, secure in their prospects to keep working, so their spending hasn't been slowed by tariff-related uncertainties. … Also: Notably not working is the protagonist of Dr Ed's latest movie review, "Your Friends & Neighbors" (+).

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: Acing Another Stress Test. Trump's Tariff Turmoil (TTT) certainly caused lots of uncertainty for workers and their employers, particularly during April and May. It was widely expected that consumers might cut back their spending because of the uncertainty, especially if businesses responded to Trump's tariffs by reducing their payrolls. So far, the evidence shows that consumers are still spending, and businesses are still expanding their payrolls.

The most widely anticipated recession of all times remains a no-show. It didn't show up over the past three years when the Fed tightened monetary policy. It hasn't happened so far this year as a result of TTT. The economy continues to pass stress tests that in the past might have brought on a recession. So far, so good.

The odds of a recession in 2025, according to Polymarkets.com, rose from around 20% during January and February of this year to over 60% during March and April (*Fig. 1*). On Friday, the odds were back down to 27%. Not surprisingly, the S&P 500 has been inversely correlated with the Polymarkets.com recession series (*Fig. 2*).

In the past, recessions were usually caused by the tightening of monetary policy, not because of the effects of higher interest rates on demand but because the tightening triggered a financial crisis that quickly turned into an economywide credit crunch that caused a recession (*Fig. 3*). Over the past three years, we've often discussed this widely overlooked phenomenon that we call the "Credit Crisis Cycle." Several of the recessions since the 1970s were either caused or exacerbated by oil supply shocks that caused oil prices to soar (*Fig. 4*). The bursting of speculative bubbles also played a central role in causing a few recessions in the past, particularly in 2001 and in 2007.

This time has been different. Fed tightening, soaring oil prices, and burst financial bubbles all have occurred since early 2022, but without precipitating a recession:

(1) The tightening of monetary policy from March 2022 through July 2023 was significant. Over this period, the Fed implemented a series of rate hikes, totaling 11 increases over 16 months, moving the rate from a range of 0.00%–0.25% to 5.25%–5.50%. There was no recession.

(2) The price of West Texas Intermediate crude oil soared over $120 per barrel during the first half of 2022. Again, there was no recession. Instead, the price of oil has been mostly falling since mid-2022. It was down to $64.77 on Friday. In the past, such a decline would have been attributable to a global recession caused by the oil price spike. This time, the global economy is growing. Instead, the oil price weakness reflects too much oil available. The lower oil price is undoubtedly boosting economic growth around the world, except among oil exporters.

(3) The S&P 500's forward P/E soared from its bear-market low of 15.5 in October 2022 to 22.5 at the beginning of this year (*Fig. 5*). Arguably, that was a meltup led by technology stocks that was reminiscent of the tech bubble of the late 1990s. But the recession that followed the tech wreck during the early 2000s hasn't been repeated this time, so far. Instead, the S&P 500 experienced a correction, as its forward P/E dropped from 22.5 on February 19 to 18.0 on April 8 and then rebounded to 21.7, once again led by the Information Technology sector.

It is too soon to be sure about the impact of TTT on the economy. However, the odds of a recession have declined, according to Polymarkets.com, as we noted above. Our assessment of the odds of a recession did rise in March, though we didn't cross over into the dark side, i.e., seeing odds of 50% or above. On March 5, we raised our subjective probability of a recession from 20% to 35% after Trump slapped tariffs on Canada, China, and Mexico. On March 31, we raised the odds of a stagflation scenario—which, we said, “may include a recession”—from 35% to 45%. In late March, Trump started to tout his April 2 “Liberation Day” reciprocal tariffs, which he postponed for 90 days with the significant exception of China.

We lowered our odds of a recession from 45% to 35% on May 4 and to 25% on May 13, which was one day after Trump agreed to cut tariffs on Chinese imports to 30% from 145% and China agreed to lowered its levies on American goods to 10% from 125%. So we lowered our recession odds because Trump continued to moderate his stance on tariffs. In addition, the labor market remained impressively resilient. We also were less concerned about a negative wealth effect on consumer spending, as the stock market had rebounded significantly.

Additionally, we expected that capital spending related to datacenters for cloud computing and the onshoring of manufacturing will remain robust—and still do. On May 19, we summed up what remains our outlook today as follows: “So the odds of our Roaring 2020s scenario is back up to 75%. In this scenario, the S&P 500 rises to 6500 by the end of this year. It could keep going to 7000 in a meltup.”

US Economy II: Labor Market Remains Resilient. The monthly employment report released by the Bureau of Labor Statistics (BLS) has lots of data about the labor market. Often, there’s enough to help economists who are either optimistic or pessimistic on the economic outlook to make their respective cases. We try to be objective: Instead of picking over the data for morsels that fit our narrative, we let the data tell us what’s what. We don’t do faith-based economics in our shop!

In our opinion, Friday’s report for May’s labor market indicators is an upbeat one, on balance. It confirms that the labor market remains resilient. So do lots of other recent labor market reports. There’s not much in the report to warm the cold hearts of the “diehard hard-landers.” The much feared Sahm Rule has yet to be triggered, as the unemployment rate remains at 4.2%. Let’s review the report:

(1) *Payroll employment.* The best news was that payroll employment increased 139,000 during May. That was much better than expected, especially after last Thursday’s ADP report showed a gain in private payrolls of only 37,000 for the month (*Fig. 6*). In the BLS report, private payrolls rose 140,000 during May. The ADP releases haven’t been useful

indicators of the same month's BLS payroll changes for quite some time.

Continuing to lead employment gains are the services industries that are getting a big boost from retiring Baby Boomers, including the Health Care & Social Assistance, Leisure & Hospitality, and Financial Activities categories. This demographic development has been our main explanation for the resilience of consumer spending for the past three and a half years. So far, so good.

May's total payroll tally was weighed down by a 22,000 drop in federal government jobs (*Fig. 7*). Thanks to Musk's DOGE Boys, federal employment is down but by only 43,800, or 1.9%, during the first five months of this year, leaving 2.936 million still employed by the federal government (*Fig. 8*). However, that drop has been more than offset by gains in state and local government employment. As a result, total government jobs are up 217,200 so far this year.

Excluding the federal government, payroll employment rose 161,000!

Also noteworthy is that construction jobs rose 4,000 in May to another record high (*Fig. 9*). In a recession scenario, the opposite would be expected; postwar recessions of the past were always associated with declines in construction jobs. Yet the construction industry remains strong despite the rise in mortgage rates of the past three years and the glut of office buildings on the market.

Hard-landers often get excited when they see declining employment in the temporary help services industry. This series has been clearly signaling a recession for the past three years. It peaked at a record 3.176 million during March 2022 and dropped 666,000 through May of this year (*Fig. 10*). So far, it has clearly been yet another misleading indicator of the business cycle. The labor market has been very tight since the Covid lockdowns were lifted during the spring of 2020. Employers seem to be relying more on permanent full-time employees than on temps.

(2) *Earned Income Proxy*. Aggregate weekly hours in private industry rose 0.1% m/m to a record 4.7 billion hours during May (*Fig. 11*). Average hourly earnings rose 0.4% m/m during May. As a result, our Earned Income Proxy for wages and salaries in private industry rose 0.5% m/m to a new record high last month (*Fig. 12*). That augurs well for May's personal income, retail sales, and consumer spending reports. This is confirmed by the Redbook Retail Sales index, which rose 5.5% y/y through the May 30 week (*Fig. 13*).

(3) *Household employment.* So what's left to bring some joy to the pessimists? Payroll employment was revised down by 95,000 during March and April. That still leaves the average gain over the past three months at 135,000. That has been enough to keep the unemployment rate right around May's 4.2%, consistent with the low pace of initial unemployment claims (*Fig. 14*).

The household measure of employment (which counts the number of people employed rather than the number of full-time and part-time jobs) might have cheered the naysayers. It fell 696,000 during May. This is an extremely volatile series on a m/m basis. It has been weaker than payroll employment for some time. In February, the annual benchmark revision boosted it by 1.9 million for January 2025 compared to December 2024. We expect a boost like that will happen again with the next revision.

(4) *Hourly wages.* May's 0.4% m/m rise in average hourly earnings in private industry (AHE)—the most widely followed monthly measure of wage rates—was led by bigger gains in Information (1.3%), Financial Activities (0.7%), and Professional & Business Services (0.6%). Among the lowest wage increases were those in Retail Trade (0.0%), Utilities (0.1%), Leisure & Hospitality (0.2%), and Transportation & Warehousing (0.2%) (*Fig. 15*).

AHE was up 3.9% y/y in May. The PCED headline inflation rate was 2.1% through April. So inflation-adjusted wages rose around 1.8% y/y (*Fig. 16*). That's a solid increase. Real wages declined from April 2020 through June 2022. They've recovered nicely since then. That's yet another explanation for the resilience of consumer spending.

Movie. "Your Friends & Neighbors" (+) is a TV series starring John Hamm as Andrew Cooper ("Coop"). Coop loses his lucrative job at a hedge fund after he loses his wife to a professional basketball star. He desperately needs cash to pay his bills. He turns to burglary, stealing from his neighbors' homes when they aren't home. It's entertaining but too preachy about the meaninglessness of living in a wealthy suburban community, especially if the alternative lifestyle presented involves robbing your friends and neighbors to remain there. (See our movie reviews *archive*.)

Calendars

US: Mon: Wholesale Inventories 0.0%. **Tues:** NFIB Business Optimism 95.9. (Source: FX Street)

Global: **Mon:** Eurozone Sentix Confidence; China CPI & PPI -0.2% & -3.2% y/y. **Tues:** Italy Industrial Output -0.1%; UK Claimant Change 4.5k; UK ILO Unemployment Rate 4.6%. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 1.6% last week and improved to 2.4% below its January 23 record high. That compares to a 1.2% gain for the AC World ex-US index, which has been hitting new record highs through Thursday since May 14 for the first time since June 15, 2021. The US MSCI has outperformed the AC World ex-US in just five of the past 19 weeks. EM Asia was the best performing region last week, with a gain of 2.4%, ahead of EM (2.2%), EM Latin America (1.5), Europe (1.3), EMEA (1.3), EMU (1.2), and the AC World ex-US. EAFE, with a gain of 0.8% last week, was the only MSCI regional index to trail the AC World ex-US. The Korea MSCI index performed the best among country indexes last week, with a gain of 6.5%, ahead of the South Africa (4.3), China (2.4), and Taiwan (2.1). The Japan MSCI index was the worst performer w/w, with a drop of 1.8%, followed by Switzerland (0.9), France (0.9), Spain (1.0), and the UK (1.0). In terms of ytd performance rankings, the US MSCI index is still among the worst country performers and trails the 13.8% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EMU now leads with a gain of 23.9%, followed by EM Latin America (21.3), Europe (19.9), EAFE (15.8), and the AC World ex-US. EM Asia is the worst ytd performer, albeit with a gain of 9.0%, followed by EM (10.0) and EMEA (10.3). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 38.9%, followed by Germany (30.7%), South Africa (27.3), Mexico (27.2), and Korea (24.8). The worst performing countries ytd: the US (2.1), Taiwan (2.6), India (3.9), Japan (6.8), and Australia (8.6).

US Stock Indexes (*link*): Forty-six of the 48 major US stock indexes that we follow rose during the week ending June 6, down from all 48 indexes rising in the prior week. The Russell 2000 Growth index was the best performer, with a gain of 4.0%, followed by Russell 2000 (3.2%), S&P 600 SmallCap Pure Growth (2.6), S&P 400 MidCap Pure Growth (2.6), S&P 500 LargeCap Pure Growth (2.4), and Russell 2000 Value (2.4). The Dow Jones 15 Utilities index, with a decline of 0.7%, was the worst performer, followed by Nasdaq Industrials (-0.4), S&P 500 LargeCap Pure Value (0.4), Dow Jones 65 Composite (1.0), and Russell 1000 Value (1.0). Thirty of the 48 indexes are now higher so far in 2025, up from 16 rising ytd a week earlier and down from 47 in mid-February. With a gain of 6.5%, the Russell MidCap Growth index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Pure Growth (6.4), Dow Jones 15 Utilities (5.2), S&P 100 Equal Weighted (4.5), and S&P 500 LargeCap Growth (3.9). The worst performing major US stock indexes ytd: S&P 600 SmallCap Pure Value (-10.3), S&P 600 SmallCap Value (-10.2), S&P 600 SmallCap Equal Weighted (-8.1), S&P 600 SmallCap (-6.8), and Dow Jones 20 Transports (-6.4).

S&P 500 Sectors Performance (*link*): Eight of the 11 S&P 500 sectors rose during the week ending June 6, but only three were ahead of the S&P 500's 1.5% gain. That compares to ten S&P 500 sectors rising a week earlier, when only three sectors were ahead of the S&P 500's 1.9% gain. The outperformers last week: Communication Services (3.2%), Information Technology (3.0), and Energy (2.2). The underperformers last week: Consumer Staples (-1.6), Utilities (-1.0), Consumer Discretionary (-0.6), Real Estate (0.3), Financials (0.6), Health Care (1.3), Industrials (1.4), and Materials (1.4). The S&P 500 is now up 2.0% ytd, with eight of the 11 sectors positive ytd and ahead of the index. Industrials still wears the crown as the best ytd performer, with a gain of 9.7%, ahead of Utilities (6.5%), Communication Services (6.5), Financials (5.8), Consumer Staples (5.8), Materials (4.3), and Real Estate (2.5). These four sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-6.8), Energy (-3.4), Health Care (-2.6), and Information Technology (1.1).

US Economic Indicators

Employment (*link*): Employment rose more than expected in May, though once again there were downward revisions to the prior two months' readings. *Payroll employment* climbed 139,000 in May, above the 130,000 expected gain, while revisions show both April (to 147,000 from 177,000) and March (120,000 from 185,000) payrolls were revised lower, for a net loss of 95,000. *Private payroll* employment climbed 140,000 in May, above the consensus estimate of 120,000, slowing slightly from April's gain of 146,000, with the *service-providing* sector adding 145,000 to payrolls last month, accelerating from March and April gains of 109,000 and 132,000, respectively, while the *goods-producing* sector lost 5,000 jobs, primarily durable goods manufacturing (-7,000). *Within service-producing industries*, once again *health care* led the pack, adding 62,000 in May—above the average monthly gain of 44,000 over the prior 12 months—with hospitals (30,000) and ambulatory health care services (29,000) once again leading the gains in this sector. *Leisure & hospitality* jobs continued to trend higher, adding 48,000 to payrolls in May, more than double the average gain of 20,000 jobs per month over the prior 12-month period—with food services & drinking places adding 30,000 jobs last month. *Social assistance* employment remained on an uptrend, rising 16,000, thanks to continued growth in individual and family service. Meanwhile, *federal government* payrolls continued getting cut, losing 29,000 jobs in May and 59,000 jobs since January.

Wages (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.4% in May, while the three-month rate increased 3.8% (saar), a tick below the yearly rate of 3.9%. May's yearly rate is down from November's 4.2%; it was at 3.6% last July, which was the lowest since May 2021. *Service-providing industries showing three-month rates above their yearly rates*: information services (8.5% & 6.2% y/y), wholesale trade (6.5 & 3.1), financial services (6.4 & 4.4), and transportation & warehousing (3.5 & 2.8). *Service-providing industries showing three-month rates below their yearly rates:* utilities (-1.5% & 1.8% y/y), other services (-0.5 & 2.6), education & health services (2.5 & 3.5), and professional & business services (4.3 & 4.9). Within *goods-producing* industries, the annualized three-month rates were just above the yearly rates for both *durable goods* (4.9 & 4.7) and *nondurable goods* (4.0 & 3.8) manufacturing.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in May, increasing 0.5%. *Average hourly earnings* advanced 0.4% during the month, while *aggregate weekly hours* edged up 0.1%—with private payroll employment up 0.1% and the average workweek flat.

Unemployment (*link*): The *number of unemployed* rose 71,000 in May to 7.24 million, with the *unemployment rate* holding at 4.2%—remaining in a narrow range from 4.0% to 4.2% since last May. *Household employment* fell 696,000 last month, while the *labor force* was 625,000. The *participation rate* edged down from 62.6% to 62.4%. *By race:* The unemployment rates in May fell for African Americans (to 6.0% from 6.3%) and ticked down for Hispanics (5.1 from 5.2), while they rose sharply for Asians (3.6 from 3.0) and were unchanged at 3.8% for Whites. *By education:* Unemployment rates fell in May for those with less than a high-school diploma (to 5.5% from 6.1%) and some college or an associate's degree (3.3 from 3.7), while the rate rose for those with a high-school diploma (4.5% from 4.0%) and was little changed for those with a bachelor's degree or higher (2.6 from 2.5).

Global Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales in ticked up 0.1% in April following gains of 0.4% and 0.2%, though accelerated 2.3% y/y, up from 1.9% the prior three months.

The *components of retail sales* show *automotive fuels* have increased five the past six months, by 1.3% in April and 3.4% over the period, while *food, drinks, and tobacco* climbed for the fourth consecutive month, by 0.5% in April and 1.2% over the four months through April. Meanwhile, spending on non-food products dipped 0.3% in April, after gains of 0.5% and 0.1% the prior two months. April data are available for all of the *Eurozone's four largest economies*. On a *month-over-month* basis, Spain (0.7%) showed the largest gain, followed by Italy (0.4), and France (0.3), with only Germany (-1.1) in the red. On a *year-over-year* basis, Spain (4.2% y/y) also led the pack, followed by France (2.8) and Germany (2.3), with Italy (0.1) basically flat, after contracting the prior three months.

Germany Factory Orders (*link*): Germany *factory orders* once again were a surprise on the upside in April, despite tariff concerns. *Manufacturing orders* rose 0.6% last month—better than consensus estimates of a 1.7% shortfall though a slowdown from March's 3.5% advance. *Domestic orders* accounted for April's increase, rising 2.2% during the month, while *foreign orders* slipped 0.3%—reflecting a 0.9% drop in *orders from outside the Eurozone*—while *orders from within the Eurozone* rose 0.5%. The report shows was a mixture of positives and negatives in April: orders for computer, electronic, and optical products soared 21.5% last month, while billings for aircraft, ships & trains (7.1) and fabricated metals (4.4) were also on the upside. Meanwhile, declines were recorded in orders for pharmaceuticals (-14.1%), electrical equipment (-9.2), and machinery & equipment (-4.2). *By sector*, capital goods (4.1%) orders climbed during the month, while consumer goods (-5.9) and intermediate goods (-3.4) orders were in the red. *Excluding large-scale orders*, billings rose 0.3%.

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