Economic highlights from the week ending on June 4, 2021

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Job growth was modestly below expectations in May. U.S. nonfarm payrolls increased by 559,000, versus the Bloomberg consensus forecast of 675,000. April payrolls were revised up by 12,000 to 278,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 541,000 and 348,000 per month, respectively. The leisure and hospitality sector continues to drive the job gains and increased by 292,000 in May. Notably, the construction sector lost 20,000 payrolls in May, likely due to materials shortages and project delays. The labor participation rate declined to 61.6% from 61.7%, which will surely catch the attention of Fed policymakers. The unemployment rate declined to 5.8% in May from 6.1% in April. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 10.2% in May from 10.4% in April. Still, more than 9.3 million people remained unemployed in May.

While the pace of recovery in the labor market may be slower than some forecasters anticipated, we believe the demand for labor continues to strengthen. However, health concerns, childcare demands, and supplemental unemployment benefits may still be deterring some people from going back to work. We believe temporary supply chain issues in the construction and manufacturing sectors may also be holding back job gains in those sectors.

Overall, the labor market remains a long way from a full recovery and as such we expect the Federal Reserve to remain highly accommodative over the near-term. Last month, Richmond Fed President Thomas Barkin said a recovery in the employment-to-population level toward the pre-pandemic level of 61.1% would support "substantial further progress" toward the Fed's goals, which is the qualitative benchmark the Fed has set before it will start adjusting monetary policy. According to the Bureau of Labor Statistics, the employment-to-population ratio was just 58.0% in May. We believe the Fed wants to see a sustained improvement in the employment-to-population and labor participation rates before they start adjusting monetary policy. For now, it remains unclear if rising pricing pressures will become more embedded and persistent. As such, we believe the Fed is more likely to wait until at least the fourth quarter of this year to assess the labor market and inflation data to determine if a change in monetary policy is warranted. While we believe the probability is rising that the Fed will begin tapering its asset purchases in the first half of 2022, we believe the Fed will remain dovish and keep monetary policy unchanged over the near-term.

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Consumer Credit, CPI, Consumer Sentiment