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US Economics | North America

Employment Report Preview

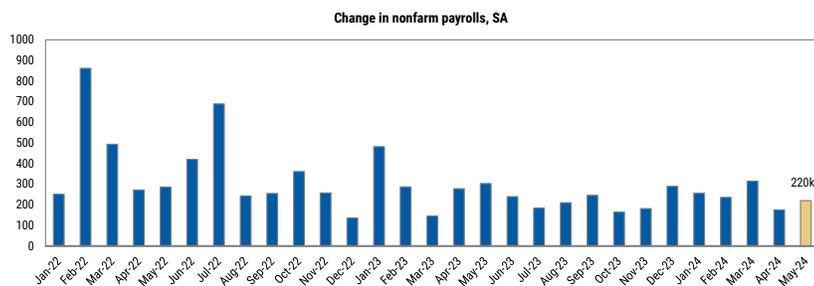
We estimate nonfarm payrolls rose 220k (180k private) in May, a rebound from April. AHE rises 0.3%M, staying at 3.9%Y - the slowest pace since early in the pandemic. The unemployment and participation rates likely stalled at 3.9% and 62.7%.

Exhibit 1: May employment forecast details

Employment Report: Forecasts & Recent History						
	Est.	Consensus		Actual		
	May-24	May-24	Apr-24	Mar-24	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	220	180	175	315	242	303
Private payrolls	180	155	167	243	197	254
Unemployment rate (%)	3.9	3.9	3.9	3.8	3.8	3.7
Labor force participation rate (%)	62.7		62.7	62.7	62.6	62.6
Average weekly hours	34.3	34.3	34.3	34.4	34.3	34.4
Average hourly earnings (%M)	0.3	0.3	0.2	0.3	0.2	0.3
%Y	3.9		3.9	4.1	4.1	4.6

Source: Bureau of Labor Statistics, (BLS), Morgan Stanley Research forecasts

Exhibit 2: We project payrolls rose 220k in May



Source: BLS, Morgan Stanley Research forecasts

MORGAN STANLEY & CO. LLC

Sam D Coffin

Economist

Sam.Coffin@morganstanley.com

+1 212 761-4630

Ellen Zentner

Chief US Economist

Ellen.Zentner@morganstanley.com

+1 212 296-4882

Diego Anzoategui

Economist

Diego.Anzoategui@morganstanley.com

+1 212 761-8573

Sarah A Wolfe

Economist

Sarah.Wolfe@morganstanley.com

+1 212 761-0857

Lenoy Dujon

US/Canada Economist

Lenoy.Dujon@morganstanley.com

+1 212 761-2779

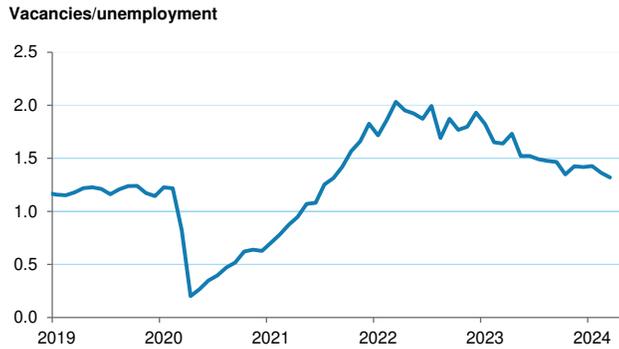
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May Employment

We expect some reacceleration in payrolls in May after softness in April, which we think reflected a temporary readjustment after an unusually warm winter. For May, we forecast headline payrolls rose 220k and private payrolls 180k. Our forecasts reflect some net slowing from the 270k per month pace averaged in 1Q and 251k in 2023.

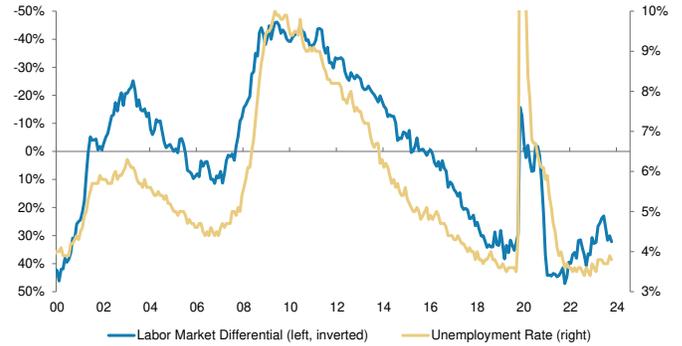
We expect some slowing in labor demand over the course of the year because of the ongoing, gradual downtrend in job openings ([Exhibit 3](#)). However, there's no immediate sign of strain: households' assessments of the labor market improved slightly in May from strong levels ([Exhibit 4](#)). New jobless claims have remained within their recent, low range, while continuing claims have risen from their winter lows but are little different from levels of six months ago ([Exhibit 5](#) & [Exhibit 6](#)),

Exhibit 3: The vacancy rate slipped in March



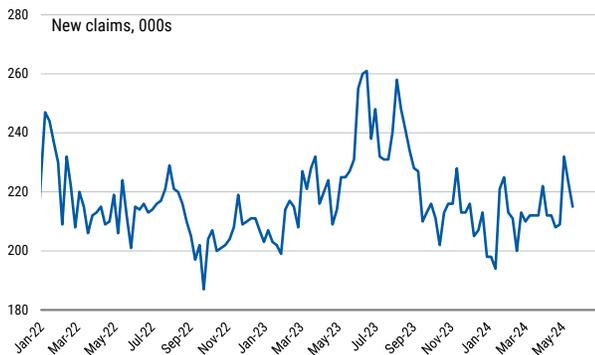
Source: BLS, Morgan Stanley Research

Exhibit 4: Households' labor market assessments improved in May from strong levels



Source: BLS, Morgan Stanley Research

Exhibit 5: New jobless claims are moving sideways



Source: Department of Labor, Morgan Stanley Research

Exhibit 6: Continuing claims are also moving sideways



Source: Department of Labor, Morgan Stanley Research

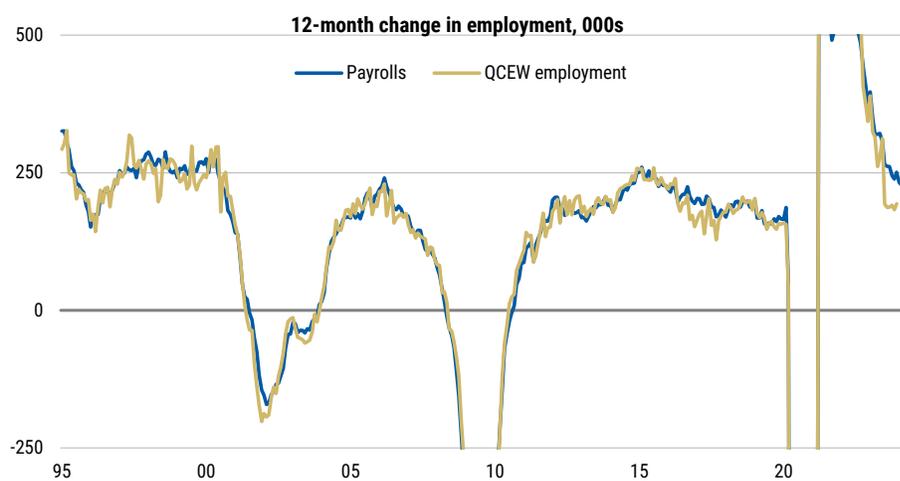
Are payrolls overstating employment growth?

We have heard a number of questions about the QCEW (Quarterly Census of Employment and Wages) because, through 4Q, it shows slower employment growth than does the payroll data. The QCEW shows 194k per month in payroll increase in the 12 months through December, versus 251k in payrolls ([Exhibit 7](#)). The discrepancy is important: the QCEW is the basis of the annual benchmark revisions to payrolls. The result: payrolls are on track to be revised downward – but we believe that’s not because payrolls are overcounting but because QCEW is undercounting.

The QCEW is a count of employment based on administrative filings with the unemployment insurance system. Because it’s based on UI records, it likely misses counting those who are not authorized to work. In contrast, the payroll survey asks that employees be counted regardless of legal status.

Our note: [Friday Finish – US Economics: Are Payrolls Overstated?](#)

Exhibit 7: Employment growth is slower in the QCEW estimates than in payrolls



Source: Bureau of Labor Statistics, Morgan Stanley Research

By Industry

A month ago, we had expected slower employment growth in construction and in leisure & hospitality as we thought the warm winter had pulled forward some hiring. In the April report, the slowdown was sharper than we expected, but we still think it was a temporary payback rather than a sign of new, weaker trends.

There was a more concerning downturn in professional and business services employment in April. We expect it will prove temporary—there’s no sign of broad slowing in business activity from jobless claims. We forecast a partial rebound. Ongoing weakening would not only throw off our employment forecast for this month but also suggest the possibility of slowing business activity ahead.

We also continue to wait for slowing in retail and transport; they’ve remained remarkably resilient even while retail sales have softened this year and job openings have come down.

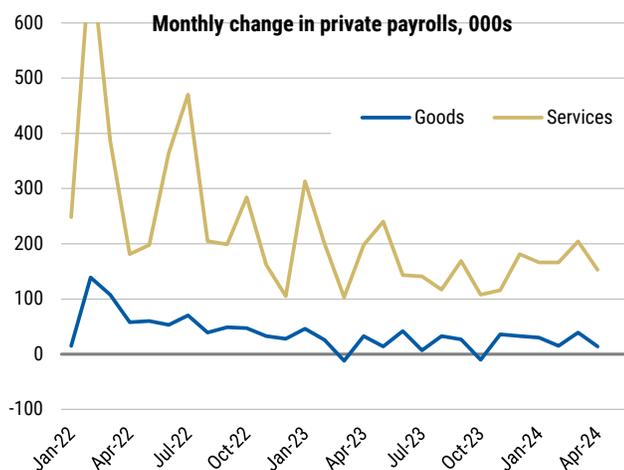
[Exhibit 8](#) provides a sector breakdown of job gains through April and our May forecasts.

Exhibit 8: Sectoral breakdown of payroll gains and our May forecast

monthly change, 000s	Average monthly change						Feb	Mar	Apr	May est
	2Q 23	3Q 23	4Q 23	1Q24						
Nonfarm	274	213	212	269			236	315	175	220
Private	223	165	155	207			181	243	167	180
Goods-producing	30	22	20	28			15	39	14	14
Mining and logging	2	1	-1	0			0	3	-3	-1
Construction	23	18	18	30			24	40	9	15
Manufacturing	4	3	2	-2			-9	-4	8	0
Motor veh.	6	3	3	1			-3	4	-2	
Service-producing	194	142	135	179			166	204	153	166
Wholesale	3	10	9	0			-4	10	10	4
Retail	5	6	-3	18			23	15	20	10
Trans. & warehousing	5	-10	-12	11			31	6	22	7
Utilities	1	1	2	1			3	-1	0	2
Information	-4	-12	1	3			-3	4	-8	3
Financial	17	7	3	-2			-7	5	6	2
Professional & business services	29	-6	6	21			6	10	-4	11
Temp help	-17	-23	-19	-4			-16	-3	-16	
Education	10	1	5	6			-9	0	8	5
Health care, social assistance	72	94	85	83			89	87	87	87
Leisure & hospitality	47	40	36	25			26	53	5	25
Other services	9	11	3	11			10	13	7	10
Government	50	49	58	62			55	72	8	40
Federal	7	8	5	10			7	10	2	
State and local	44	40	52	52			48	62	6	

Source: BLS, Morgan Stanley Research forecasts

Exhibit 9: Services payrolls reaccelerated throughout 1Q, with a little reversal in April.



Source: BLS, Morgan Stanley Research

Exhibit 10: Leisure payrolls reversed course in April. Professional & business payrolls have slowed more consistently.

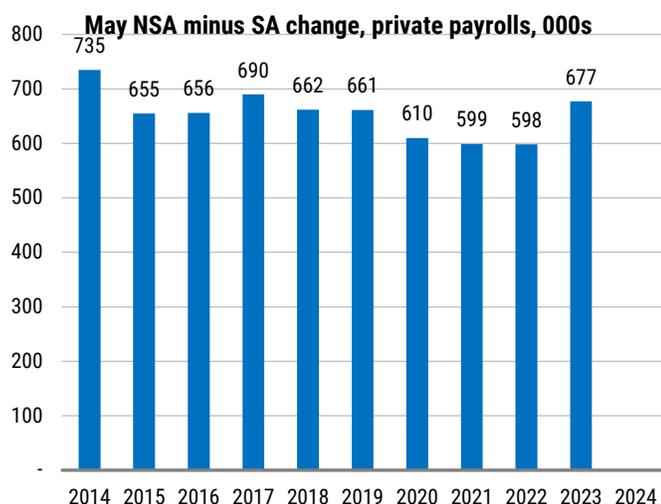


Source: Bureau of Labor Statistics, Morgan Stanley Research

We do not expect a distortion from seasonal factors, but there is some downside risk.

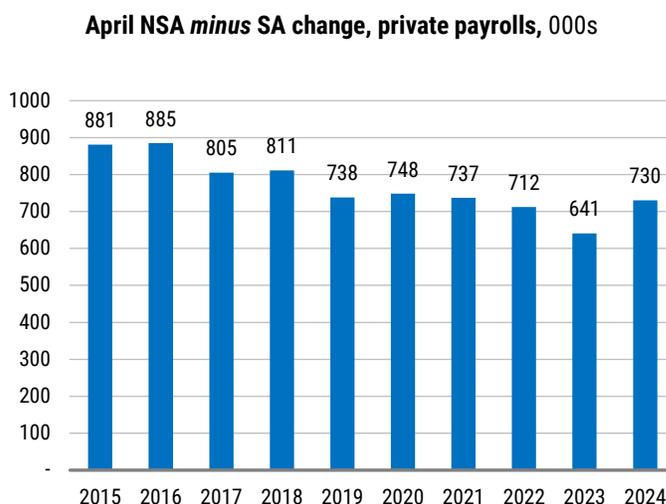
NSA private payrolls tend to rise in April and again in May. Both last May and this April, seasonal factors subtracted about what they had pre-Covid ([Exhibit 11](#) , [Exhibit 12](#)). There was no obvious distortion to the aggregate seasonal factor. That said, some particular industries show downside risk. In both April and May, the seasonal adjustments for construction and leisure & hospitality assumes large increases in employment. There is a high hurdle for seasonally adjusted employment in these two industries to show a rise. We think that the April weakness in those two industries was weather payback; but those were the industries with high hurdles last month, and they will be again this month ([Exhibit 13](#)).

Exhibit 11: Payrolls tend to rise in May. Last year, seasonal factors subtracted about what they had pre-Covid.



Source: BLS, Morgan Stanley Research

Exhibit 12: Payrolls tend to rise in April. Last month, seasonal factors subtracted about what they had pre-Covid.



Source: BLS, Morgan Stanley Research

Exhibit 13:

Payrolls tend to rise in most industries in May. Leisure & hospitality and construction are the biggest movers.

	May	April Hurdle	April NSA	April SA
Leisure & Hospitality	411	251	256	5
Construction	135	151	160	9
Local Government, excluding Education	63	23	19	-4
Retail Trade	62	19	39	20
Professional & Business Services	47	171	167	-4
Other Services	33	31	38	7
Health Care & Social Assistance	23	-5	82	87
Manufacturing	22	2	10	8
Wholesale Trade	19	12	22	10
Financial Activities	19	11	17	6
Local Government Education	12	-26	-23	3
Federal	11	3	5	2
Information	9	-3	-11	-8
Transportation & Warehousing	7	-36	-14	22
Mining & Logging	4	-1	-4	-3
State Government, excluding Education	1	3	1	-2
Utilities	0	-1	-1	0
Educational Services	-112	16	25	8
State Government Education	-147	8	16	8
Total	619	629	803	174

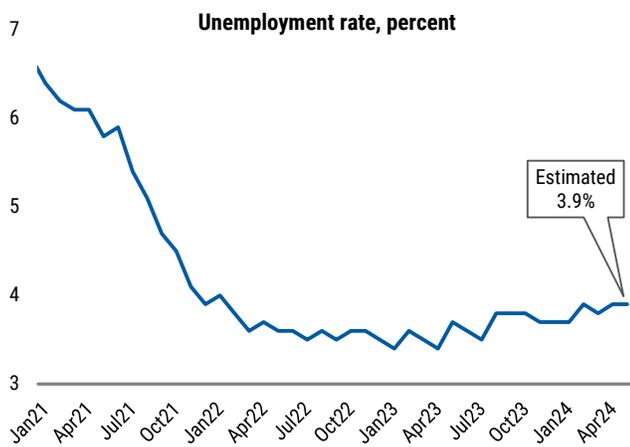
Source: BLS, Morgan Stanley Research

The 0.3% rise in average hourly earnings that we forecast would leave the 12-month pace at 3.9%. The pace is its slowest since early pandemic, but 3.9% is still rapid.

The unemployment rate is probably unchanged (to one decimal place) inching up in our forecast from 3.86% in April to 3.91% in May. The labor force participation rate is expected to be unchanged at 62.7% ([Exhibit 14](#) & [Exhibit 15](#)).

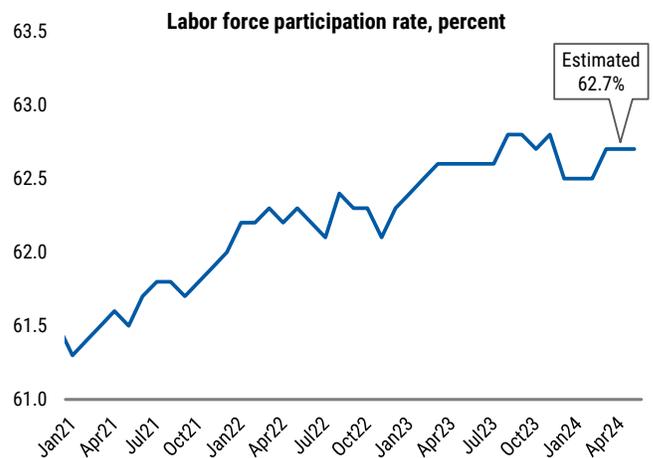
Through April, the unemployment rate had risen nearly ½ point from 12-months earlier despite rapid payroll growth of 235k per month on average in that period. Labor force growth has been large enough to absorb rapid employment growth. With fast immigration, we estimate that payroll increase of about 265k per month is consistent with an unchanged unemployment rate. See [Exhibit 16](#).

Exhibit 14: We forecast the unemployment rate stalls at 3.9%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

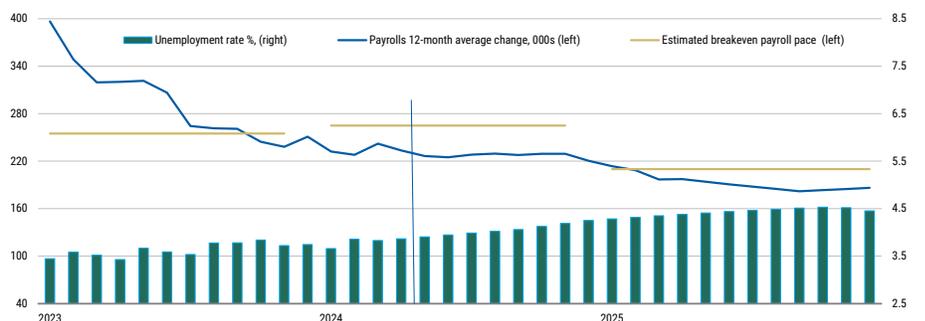
Exhibit 15: We expect labor force participation remains at 62.7%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 16:

We estimate that payrolls are running somewhat below the breakeven pace that holds the unemployment rate unchanged. We expect the unemployment rate to continue to inch up.



Source: BLS, Morgan Stanley Research

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