

Labor Market Watch

US jobs preview: May maintains momentum

Measuring May: payrolls to increase by 150k

Payrolls are likely to rise by 150k in May, after coming in at 177k in April (Exhibit 1). This is higher than consensus expectations of 120k. Firms likely paused the hiring of trade & transportation workers after the front-loading driven increase in the previous months. But given elevated uncertainty about the steady state on tariff policy, we don't think they would have already started shedding workers. Risks are to the downside. We expect the u-rate to remain at 4.2%. Even if payrolls print moderately lower than our forecast, we think the Fed would feel comfortable with staying on hold.

Muted claims in the survey week...DOGE not a big drag

Initial claims in the survey week of the jobs report (week ending May 17) remained at muted levels (Exhibit 2) despite some holiday-related volatility, pointing to a stable labor market. Government jobs are likely to come in at 10k. The DOGE impact has only been felt minimally in federal layoffs so far. This is likely due to the hiring freeze/probationary layoffs. Although federal employee claims did rise a little in survey week, the move was too small to move the needle on the labor market (Exhibit 3).

Trade & transportation: hiring pause but not layoffs

The trade and transportation sector was a substantial driver of job gains in Mar/Apr, driven by front loading due to tariff concerns. Hence, we are expecting some payback in May in the form of firms pausing hiring in this sector. The US-China deal, which was only announced during the survey week, could lead to another round of front loading, but we haven't seen that play out in the import data from China yet (Exhibit 4). But we think there is too much uncertainty for firms to have started laying workers off.

Leisure & hospitality: Impacted by trade & immigration

Immigration restrictions are likely to weigh on payrolls in the coming months. But we don't think they'll have a substantial impact in May. On May 30 (after the survey period), the Supreme Court ruled that the administration can terminate the CHNV humanitarian parole program (~250k workers). This should impact hiring in leisure & hospitality, education & health and construction in the coming months. Leisure & hospitality might also be soft in May due to recent weakness in air travel and accommodation spending.

Keep an eye on the u-rate

We expect the u-rate to remain at 4.2% (4.19% in the previous month, Exhibit 5), with the labor force participation rate coming down a tenth to 62.5%. The u-rate will be closely watched in coming months to parse out the supply (immigration restrictions) vs. demand (impact of trade uncertainty and DOGE actions) shocks to the labor market. The recent rise in continuing claims in May likely adds some upside risk on this front.

Positive income growth to buoy consumption

Average weekly hours rebounded in March after being impacted by extreme weather in Jan and Feb. We think hours are likely to have remained stable since at 34.3. This would support aggregate income and hence consumption. Average hourly earnings are also likely to increase a tenth to 0.3% m/m.

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u-rate: Unemployment Rate

AWH: Average Weekly Hours

AHE: Average Hourly Earnings

LFPR: Labor Force Participation rate

DOGE: Department of Government
Efficiency

QCEW: Quarterly Census of
Employment and Wages

HH: Household

BLS: Bureau of Labor Statistics

FOMC: Federal Open Market
Committee

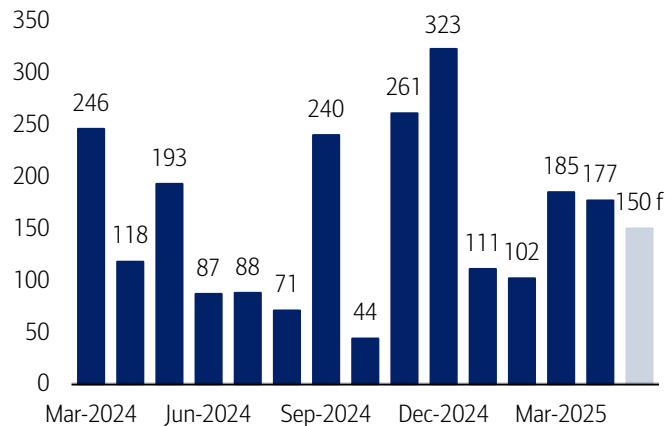
FOMC: Federal Open Market
Committee

DMV: Washington DC, Maryland and
Virginia

CHNV: Cubans, Haitians, Nicaraguans,
and Venezuelans

Exhibit 1: We expect nonfarm payrolls to rise by 150k in May

Nonfarm payroll (NFP) employment (m/m change, thous, SA)

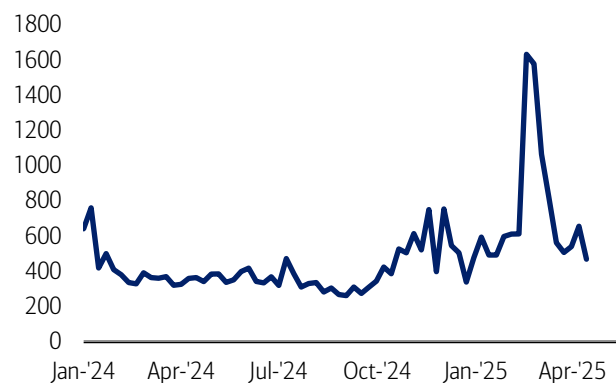


Source: BLS, Haver Analytics, BofA Global Research

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Exhibit 3: Jobless claims among federal employees did increase a little in the survey week, but they are down from their peak in Feb

Initial claims filed in federal programs (NSA)



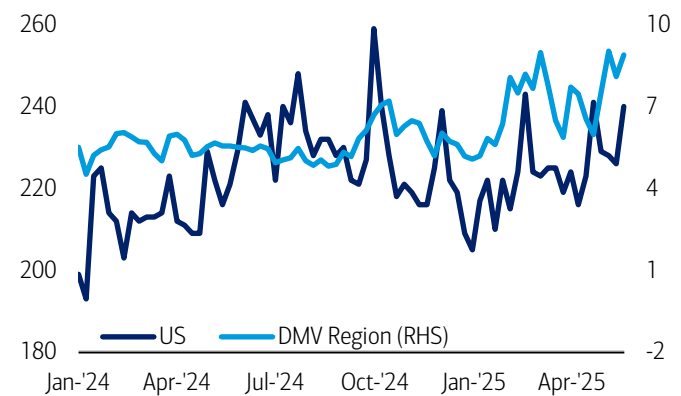
Source: Department of Labor, Haver Analytics

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(Continued on next page)

Exhibit 2: Claims remained muted in the survey week (week ending May 17)

Initial jobless claims (SA, thous)

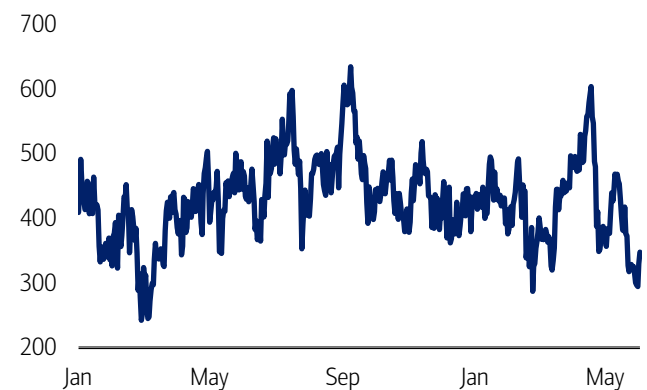


Source: BLS, Haver Analytics, Note: DMV area comprises DC, Maryland and Virginia

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Exhibit 4: Volumes of goods departing from China to the US suggest a payback in May

Imports volume from China to the US (TEU, daily data)



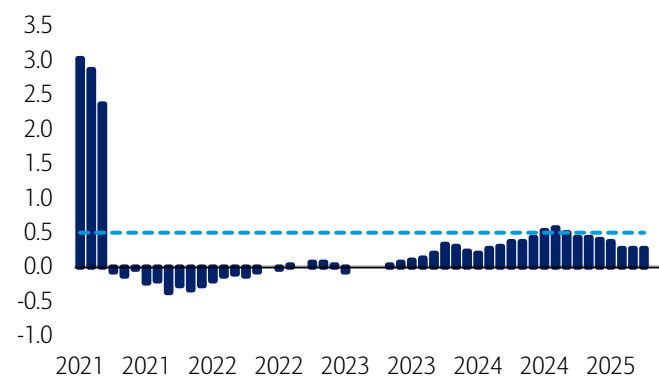
Source: Bloomberg

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Exhibit 5: We expect the u-rate to remain at 4.2% in May

Sahm-rule (%)



Source: BLS, Haver Analytics, BofA Global Research

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