Making **Sense**

May's Employment Data:

Hotter Labor Market Report Keeps Fed Focused on Inflation

In Brief:

Takeaways from May's employment data:

- Net new jobs: +272,000
- Unemployment rate: 4.0%
- Wage gains: +4.1% y/y

What does it mean for you?

- The labor market is still strong despite some softening in recent data.
- The Fed's cautious stance will likely continue until inflation data improves, the economy cools, or both.

What to watch:

- Commentary from the Fed about the interest rate outlook during its next meeting on June 12th, which also includes the updated Summary of Economic Projections.
- Stay informed and submit your questions at FirstCitizens.com/Market-Update.

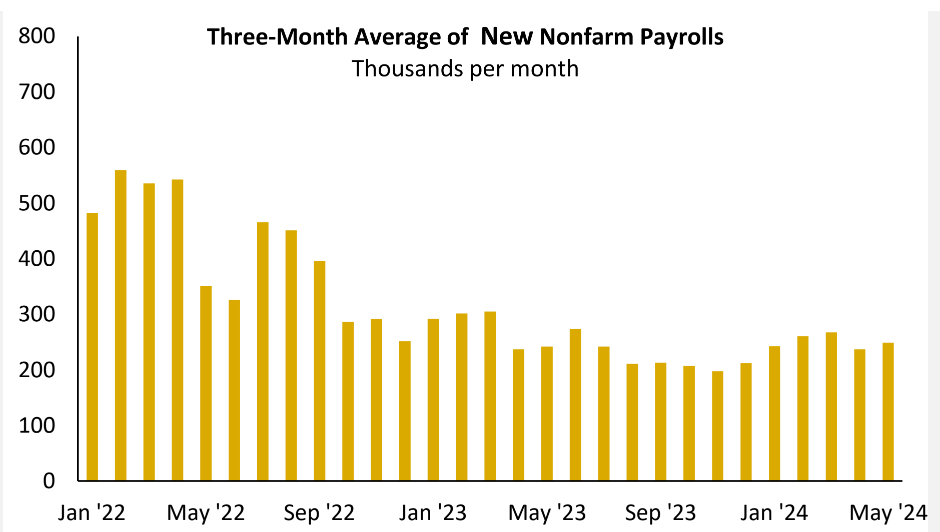
Employment data for May were considerably firmer than expected and drove Treasury yields higher as investors adjusted expectations for the Fed's interest-rate cuts.

New payroll gains were +272,000 in May, over 50% higher than markets expected for the month. Wage growth was also very firm, rising 0.4% in May and causing the yearly rate to accelerate to +4.1%. In recent weeks, a dominant narrative has been that the Federal Reserve will be watching not only the inflation outlook but also for any potential signs of labor market deterioration. **Today's strong job gains and firmer wage growth will likely keep the Fed focused on inflation at next week's meeting.**

The unemployment rate ticked up by 0.1% further and crossed 4.0% for the first time since January 2022. Some analysts and commentators note that a rise in unemployment by more than a few tenths of a percent is a worrying sign (the unemployment rate has risen by 0.6% from 3.4% over the last 14 months). Data on layoffs and jobless claims remain fairly muted however, and we believe the labor market is strong and normalizing from its significantly distorted post-pandemic state.

Today's hotter than expected report will keep the Fed focused on the overheated economy. But if the unemployment rate continues to step up, both elements of the Fed's dual mandate—maximum employment as well as price stability—will increasingly become part of the narrative going forward.

Figure 1: Job Growth Has Remained Very Strong



Source: BLS

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