RBC Economics & Thought Leadership

Economic Update

June 2, 2023

U.S. unemployment rate ticked up in May despite payroll increase

- Headline employment growth in the U.S. rose by 339k in May, slightly above the average pace of 308k year-to-April. Job gains were widespread across sectors, but most notable in professional and business services (+64k) and government employment (56k).
- The unemployment rate (from the separately released household survey) rose to 3.7% in May from 3.4% in April. The gap between the employment estimates of the two surveys (household survey employment declined by 310k) can mostly be explained by a big drop in self-employment (-412k) in May. Self-employed workers are not counted in the payroll survey.
- Total hours worked for private non-farm employees ticked lower in May by 0.1% despite higher employment. Wage growth also continued to moderate, to a still-elevated 4.3% yearly rate.
- Employment has continued to surprise on the upside. Still, other signs of labour demand stalling have been emerging. Manufacturing employment edged lower in May for the second time in the past 3 months. Job openings have been trending down since last spring. Quits rate kept easing from abnormally high levels, indicating waning confidence in labour market conditions among workers.
- **Bottom line:** Early signs of slowing labour demand has not yet been able cool a currently very hot labour market. Employment growth continues to surprise on the upside and wage growth, although moderating is still above the level that the Fed's comfortable with. We continue to expect that the surge in interest rates since early 2022 will ultimately slow hiring demand further and push unemployment higher. But inflation is also high, and persistent strength in employment growth is adding pressure on the Fed to hike rates further.

Data Summary:

	Mar-23	Apr-23	May-23	May-23
	m/m change, thousands			*12mth avg*
Payroll employment	217	294	339	339
Private	157	253	283	294
Public	60	41	56	45
Hourly wages (m/m %)	0.3	0.4	0.3	4.3 (y/y %)
		%		*y/y change*
Unemployment rate	3.5	3.4	3.7	0.1
U6	6.7	6.6	6.7	-0.4
Participation rate	62.6	62.6	62.6	0.3

Source: Haver, RBC Economics Research

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