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Job Gains Across the Board

The U.S. added 223,000 jobs in May, about 30,000 more than expected. Aside from an outlying report in February, May was the first time since November that more than 200,000 jobs were added. Even better, the unemployment rate fell to 3.8 percent, the lowest rate since 2000. The report was a resounding confirmation of the strength in our economy and the continued growth in private sector jobs. All sectors except temporary services added workers. The distribution of jobs shows the labor market is spread across the economy and not dependent on one area. Wages rose 0.3 percent for the month and 2.7 percent for the year.

Other Key Indicators this Week:

GDP – The economy grew at a slightly slower pace in the first quarter than initially reported. GDP rose 2.2 percent, instead of 2.3 percent, due to less consumer spending, inventory depletion and a drop in net exports. Consumer spending, which contributes the most to economic growth, was revised a tenth of a percentage point to one percent as spending on health services declined. But the focus on the report this time should be the positives, not the negatives. Business investment and after-tax corporate profits surged during the first quarter. Although the tax-code changes at the beginning of the year may have distorted the corporate profit addition to GDP, the fact remains that companies are showing more willingness to invest and grow their businesses. Economists are already estimating growth in the second quarter will be close to 3.4 percent.

Beige Book – The quarterly report from the 12 Federal Reserve districts described moderate to modest economic growth in most regions. Manufacturing, in particular, has shifted into high gear. Home building and demand for loans also picked up across the country. Hampering growth, however, is a shortage of labor that is showing up in many sectors. The jobs most in demand include truck drivers, electricians, carpenters, and information technology. Many companies are boosting pay and overall compensation to attract qualified workers. St. Louis noted they have started relaxing standards for hiring truck drivers. Richmond had to turn away business due to lack of transport capabilities.

Spending – Consumers started the second quarter on good note, as far as economists are concerned. Spending surged 0.6 percent in April, the largest gain since November. Consumers spent more on services ($27.5 billion) than on goods ($15.4 billion), but in both cases, higher energy and gas prices made up a large percent of the gains. Incomes rose 0.3 percent and reflected increases in wages, interest income and government benefit programs. Not surprising, with spending higher than incomes, the savings rate fell to 2.8 percent, the lowest since December.

Strategically for Credit Unions:

This week was a good reminder to stay focused on the big picture. Tuesday and Wednesday's extreme moves in stock prices and bond yields was a wake-up call that other factors outside of the U.S. are affecting our markets. However, the quick reversal in prices and yields, along with a strong job report, is a resounding thumbs up to the stability of the U.S. economy. The10-year Treasury yield remains below the 3.11 percent high mark reached a few weeks ago, but has moved back to last week's levels. The Federal Reserve appears to be on track to raise rates at the next meeting on June 13, with one or two more rate hikes to follow this year.

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