

ECONOMICS: US PERSPECTIVES—JUNE 4, 2010

Improving Employment and Income Picture Bodes Well for Self-Sustaining Growth Cycle

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Considered in their full context, the latest figures on jobs and work hours indicate gains in consumer income—the lifeblood of consumer spending—and offer evidence of the nation’s continuing economic recovery.

The latest figures on employment, hours and wages from the US Bureau of Labor Statistics (BLS) provide additional evidence of the nation’s continuing economic recovery, even if new job figures are inflated by the hiring of temporary workers for the 2010 US Census.

May payroll employment rose by 431,000, following gains of 208,000 in March and 290,000 in April. To be fair, almost all of May’s gain reflected the hiring of Census workers. According to the BLS, the federal government hired 411,000 Census workers in May, bringing total Census hiring to 564,000 over the past few months. Private payroll growth was only 41,000 in May, after gains of 158,000 and 218,000 in March and April, respectively.

But the smaller-than-expected gains in the private sector in May (**Display 1**) were more than offset by rising work hours and wages. Many people pore over jobs reports, searching for information on new job creation, and in the process often ignore or overlook data on hours worked and wages. Yet these factors play a big

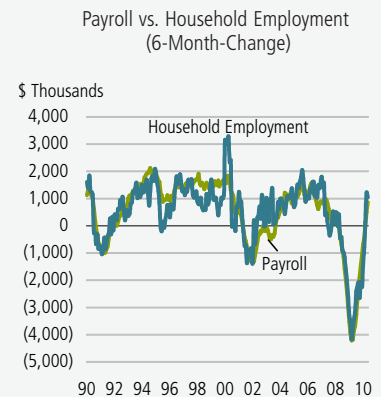
role in generating wage and salary income. For example, every one-tenth of an hour increase in the average workweek is the equivalent of hiring 350,000 more workers, while every 0.1% jump in average hourly earnings equals about 100,000 new workers. In May, the average workweek rose by 0.1 hour, to 34.2 hours (**Display 2**), while average hourly earnings increased by 0.3%.

All told, the data on jobs, hours and wages for May point to an increase of 0.6% in wage and salary income, the strongest monthly gain in over a year.

Tax Receipts Confirm Bigger Paycheck for US Consumer

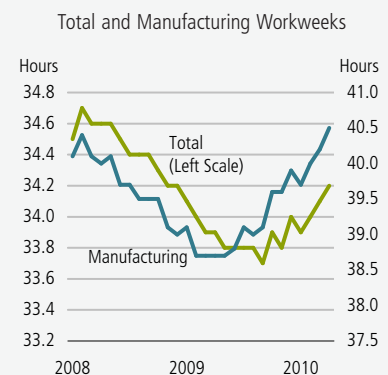
Federal withheld-income-tax receipts provide strong confirmation of the rebound in wage and salary growth, since taxes are taken from workers’ paychecks every day of every week. Admittedly, these data are noisy, but they’re a reliable gauge of underlying income trends, and recent data show an improving picture.

Display 1
Private-Sector Jobs Rebound Slows in May



Source: Haver Analytics and US Bureau of Labor Statistics

Display 2
But Hours Worked Are Strong



Source: Haver Analytics and US Bureau of Labor Statistics

We measure tax receipts on a 20-day moving average, approximating the number of workdays in a month, and compare them with one year earlier. Receipts were clearly weak at the outset of 2010, with much lower employment than a year earlier. But they started to recover with the February/March hiring rebound (**Display 3**). Over the past two months, year-over-year gains in tax receipts have accelerated—from 1% in early-to-mid April to more than 6% by the end of May.

In fact, May's showing was the best monthly gain since 2007. And in our estimation, the impact from temporary Census worker hiring is relatively minor, accounting for less than half of one percent of the increase in tax receipts.

Gauging Employment and Income Trends: Payroll Survey Versus Household Survey

Although payroll numbers were disappointing, the payroll survey isn't the only survey that provides a lens into employment and income.

The BLS also collects employment data from the household survey. Its smaller sample size tends to make it more volatile

month-to-month than the payroll survey, but the household survey avoids the statistical adjustments inherent in the payroll survey—such as those that account for missing or incomplete data. These adjustments may contribute to the payroll survey's tendency to be off target when the cycle is at a turning point, making household data a better indicator.

In May, household employment fell by 35,000, but that followed gains of over 1.7 million over the previous four months, the strongest gains in many years. The mere fact that the level of household employment held more or less steady in May following relatively large gains is an encouraging development.

In addition, the gains in the household survey are more consistent with the tax-receipt data, and they argue that payroll employment is likely to be revised higher in coming months—or when the benchmark revision occurs a year from now.

What's the key takeaway from employment and tax-receipt data? Workers' incomes are beginning to rise, which is vital for a self-sustaining economic growth

Display 3
Tax Receipts Confirm Hiring Rebound



Source: Haver Analytics, US Treasury and AllianceBernstein

cycle. The composition of income gains may vary from month to month: new jobs contribute more in some months, while hours and wages dominate in others. But the underlying trend has been encouraging—and that's most important for the sustainability of the cycle. ■

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