

May 30, 2024 07:54 PM GMT

US Economics | North America

# Employment Report Preview

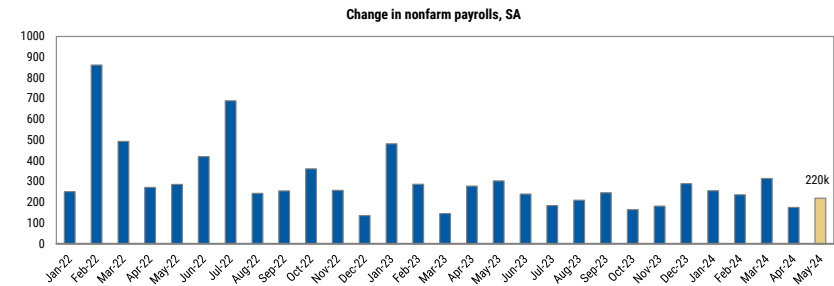
We estimate nonfarm payrolls rose 220k (180k private) in May, a rebound from April. AHE rises 0.3%M, staying at 3.9%Y - the slowest pace since early in the pandemic. The unemployment and participation rates likely stalled at 3.9% and 62.7%.

Exhibit 1: May employment forecast details

Employment Report: Forecasts & Recent History						
	Est.	Consensus		Actual		
	May-24	May-24	Apr-24	Mar-24	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	220	180	175	315	242	303
Private payrolls	180	155	167	243	197	254
Unemployment rate (%)	3.9	3.9	3.9	3.8	3.8	3.7
Labor force participation rate (%)	62.7		62.7	62.7	62.6	62.6
Average weekly hours	34.3	34.3	34.3	34.4	34.3	34.4
Average hourly earnings (%M)	0.3	0.3	0.2	0.3	0.2	0.3
%Y	3.9		3.9	4.1	4.1	4.6

Source: Bureau of Labor Statistics, (BLS), Morgan Stanley Research forecasts

Exhibit 2: We project payrolls rose 220k in May



Source: BLS, Morgan Stanley Research forecasts

MORGAN STANLEY & CO. LLC

Sam D Coffin

Economist

Sam.Coffin@morganstanley.com

+1 212 761-4630

Ellen Zentner

Chief US Economist

Ellen.Zentner@morganstanley.com

+1 212 296-4882

Diego Anzoategui

Economist

Diego.Anzoategui@morganstanley.com

+1 212 761-8573

Sarah A Wolfe

Economist

Sarah.Wolfe@morganstanley.com

+1 212 761-0857

Lenoy Dujon

US/Canada Economist

Lenoy.Dujon@morganstanley.com

+1 212 761-2779

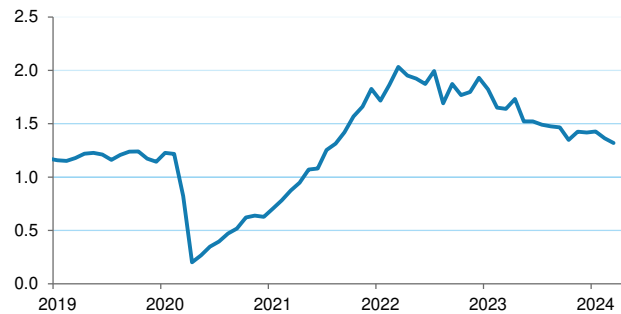
## May Employment

**We expect some reacceleration in payrolls in May after softness in April, which we think reflected a temporary readjustment after an unusually warm winter. For May, we forecast headline payrolls rose 220k and private payrolls 180k. Our forecasts reflect some net slowing from the 270k per month pace averaged in 1Q and 251k in 2023.**

We expect some slowing in labor demand over the course of the year because of the ongoing, gradual downtrend in job openings ([Exhibit 3](#)). However, there's no immediate sign of strain: households' assessments of the labor market improved slightly in May from strong levels ([Exhibit 4](#)). New jobless claims have remained within their recent, low range, while continuing claims have risen from their winter lows but are little different from levels of six months ago ([Exhibit 5](#) & [Exhibit 6](#)),

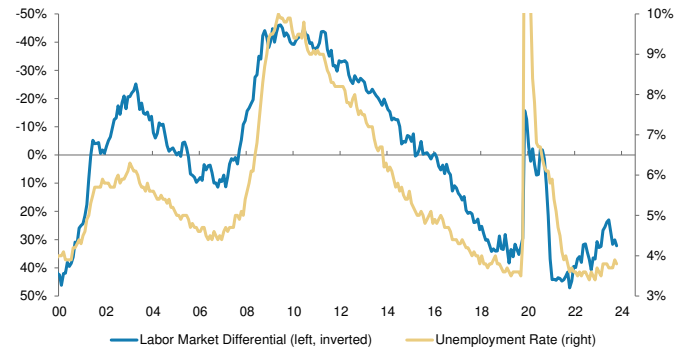
**Exhibit 3:** The vacancy rate slipped in March

Vacancies/unemployment



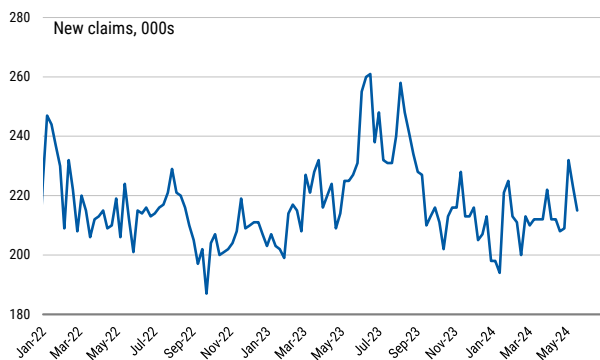
Source: BLS, Morgan Stanley Research

**Exhibit 4:** Households' labor market assessments improved in May from strong levels



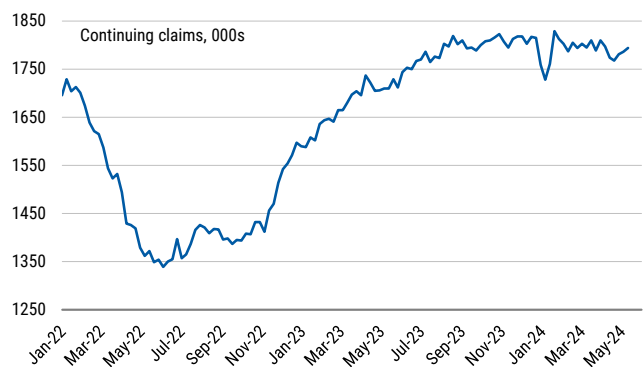
Source: BLS, Morgan Stanley Research

**Exhibit 5:** New jobless claims are moving sideways



Source: Department of Labor, Morgan Stanley Research

**Exhibit 6:** Continuing claims are also moving sideways



Source: Department of Labor, Morgan Stanley Research

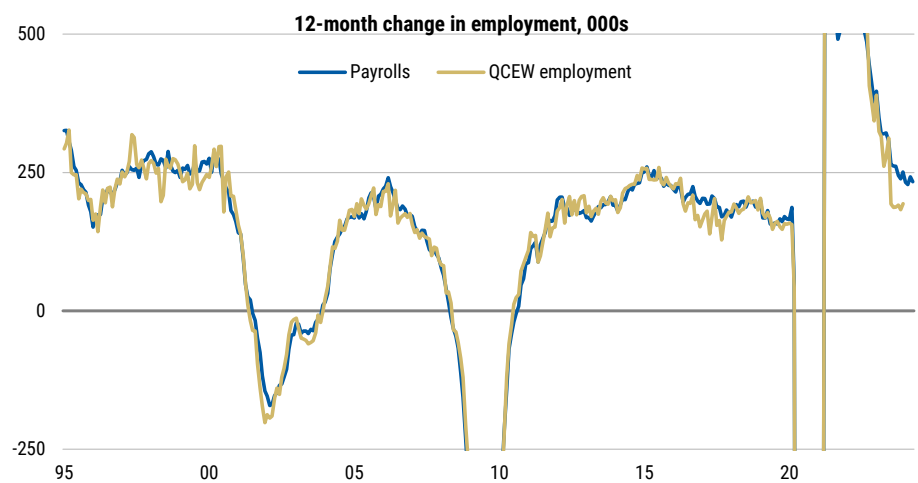
### Are payrolls overstating employment growth?

We have heard a number of questions about the QCEW (Quarterly Census of Employment and Wages) because, through 4Q, it shows slower employment growth than does the payroll data. The QCEW shows 194k per month in payroll increase in the 12 months through December, versus 251k in payrolls ([Exhibit 7](#)). The discrepancy is important: the QCEW is the basis of the annual benchmark revisions to payrolls. The result: payrolls are on track to be revised downward – but we believe that's not because payrolls are overcounting but because QCEW is undercounting.

The QCEW is a count of employment based on administrative filings with the unemployment insurance system. Because it's based on UI records, it likely misses counting those who are not authorized to work. In contrast, the payroll survey asks that employees be counted regardless of legal status.

Our note: [Friday Finish – US Economics: Are Payrolls Overstated?](#)

**Exhibit 7:** Employment growth is slower in the QCEW estimates than in payrolls



Source: Bureau of Labor Statistics, Morgan Stanley Research

### By Industry

A month ago, we had expected slower employment growth in construction and in leisure & hospitality as we thought the warm winter had pulled forward some hiring. In the April report, the slowdown was sharper than we expected, but we still think it was a temporary payback rather than a sign of new, weaker trends.

There was a more concerning downturn in professional and business services employment in April. We expect it will prove temporary—there's no sign of broad slowing in business activity from jobless claims. We forecast a partial rebound. Ongoing weakening would not only throw off our employment forecast for this month but also suggest the possibility of slowing business activity ahead.

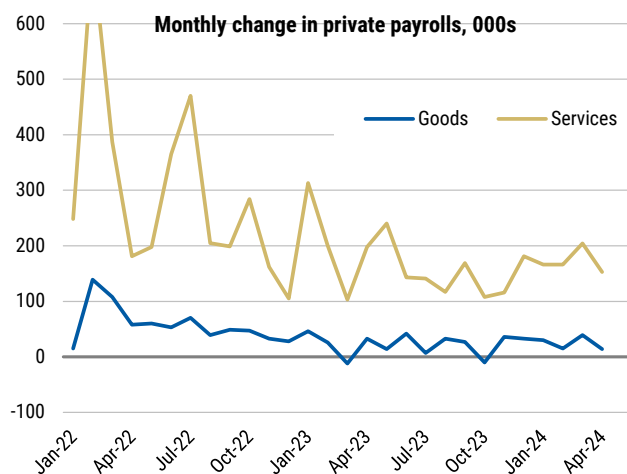
We also continue to wait for slowing in retail and transport; they've remained remarkably resilient even while retail sales have softened this year and job openings have come down.

[Exhibit 8](#) provides a sector breakdown of job gains through April and our May forecasts.

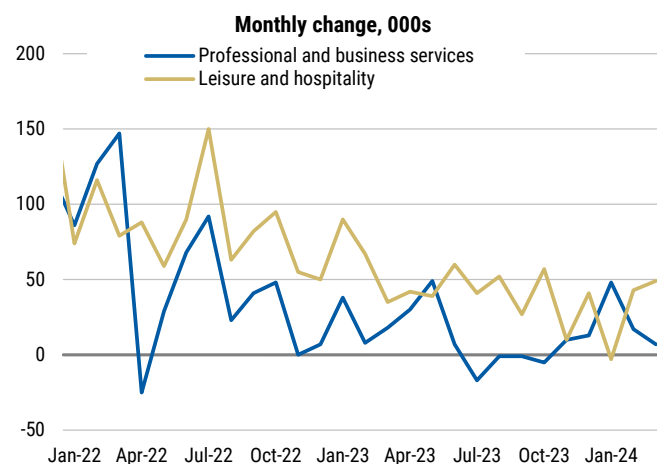
**Exhibit 8:** Sectoral breakdown of payroll gains and our May forecast

monthly change, 000s	Average monthly change								
	2Q 23	3Q 23	4Q 23	1Q24					
<b>Nonfarm</b>	<b>274</b>	<b>213</b>	<b>212</b>	<b>269</b>		<b>236</b>	<b>315</b>	<b>175</b>	<b>220</b>
Private	223	165	155	207		181	243	167	180
Goods-producing	30	22	20	28		15	39	14	14
Mining and logging	2	1	-1	0		0	3	-3	-1
Construction	23	18	18	30		24	40	9	15
Manufacturing	4	3	2	-2		-9	-4	8	0
Motor veh.	6	3	3	1		-3	4	-2	
Service-producing	194	142	135	179		166	204	153	166
Wholesale	3	10	9	0		-4	10	10	4
Retail	5	6	-3	18		23	15	20	10
Trans. & warehousing	5	-10	-12	11		31	6	22	7
Utilities	1	1	2	1		3	-1	0	2
Information	-4	-12	1	3		-3	4	-8	3
Financial	17	7	3	-2		-7	5	6	2
Professional & business services	29	-6	6	21		6	10	-4	11
Temp help	-17	-23	-19	-4		-16	-3	-16	
Education	10	1	5	6		-9	0	8	5
Health care, social assistance	72	94	85	83		89	87	87	87
Leisure & hospitality	47	40	36	25		26	53	5	25
Other services	9	11	3	11		10	13	7	10
Government	50	49	58	62		55	72	8	40
Federal	7	8	5	10		7	10	2	
State and local	44	40	52	52		48	62	6	

Source: BLS, Morgan Stanley Research forecasts

**Exhibit 9:** Services payrolls reaccelerated throughout 1Q, with a little reversal in April.

Source: BLS, Morgan Stanley Research

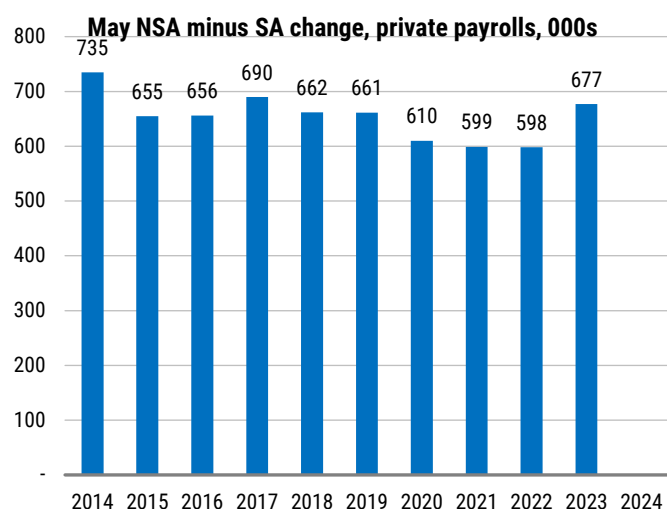
**Exhibit 10:** Leisure payrolls reversed course in April. Professional & business payrolls have slowed more consistently.

Source: Bureau of Labor Statistics, Morgan Stanley Research

**We do not expect a distortion from seasonal factors, but there is some downside risk.**

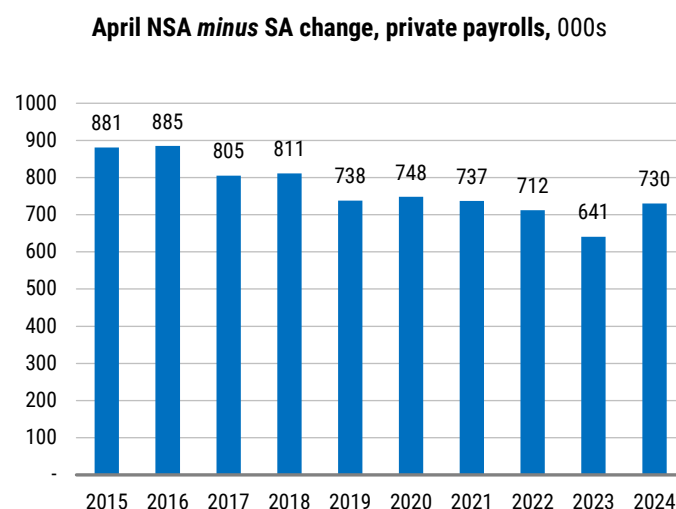
NSA private payrolls tend to rise in April and again in May. Both last May and this April, seasonal factors subtracted about what they had pre-Covid ([Exhibit 11](#), [Exhibit 12](#)). There was no obvious distortion to the aggregate seasonal factor. That said, some particular industries show downside risk. In both April and May, the seasonal adjustments for construction and leisure & hospitality assumes large increases in employment. There is a high hurdle for seasonally adjusted employment in these two industries to show a rise. We think that the April weakness in those two industries was weather payback; but those were the industries with high hurdles last month, and they will be again this month ([Exhibit 13](#)).

**Exhibit 11:** Payrolls tend to rise in May. Last year, seasonal factors subtracted about what they had pre-Covid.



Source: BLS, Morgan Stanley Research

**Exhibit 12:** Payrolls tend to rise in April. Last month, seasonal factors subtracted about what they had pre-Covid.



Source: BLS, Morgan Stanley Research

**Exhibit 13:**

Payrolls tend to rise in most industries in May. Leisure & hospitality and construction are the biggest movers.

	May	April Hurdle	April NSA	April SA
Leisure & Hospitality	411	251	256	5
Construction	135	151	160	9
Local Government, excluding Education	63	23	19	-4
Retail Trade	62	19	39	20
Professional & Business Services	47	171	167	-4
Other Services	33	31	38	7
Health Care & Social Assistance	23	-5	82	87
Manufacturing	22	2	10	8
Wholesale Trade	19	12	22	10
Financial Activities	19	11	17	6
Local Government Education	12	-26	-23	3
Federal	11	3	5	2
Information	9	-3	-11	-8
Transportation & Warehousing	7	-36	-14	22
Mining & Logging	4	-1	-4	-3
State Government, excluding Education	1	3	1	-2
Utilities	0	-1	-1	0
Educational Services	-112	16	25	8
State Government Education	-147	8	16	8
<b>Total</b>	<b>619</b>	<b>629</b>	<b>803</b>	<b>174</b>

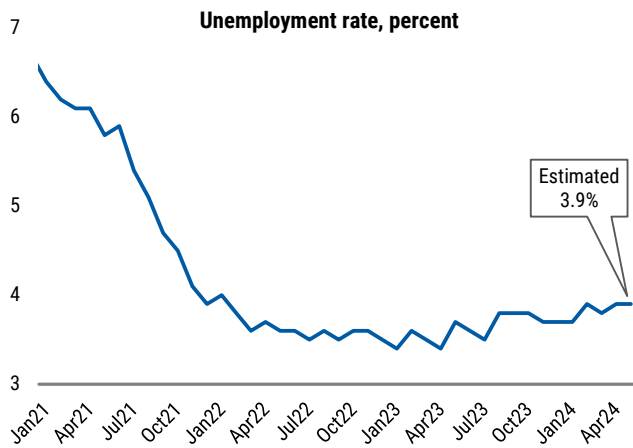
Source: BLS, Morgan Stanley Research

**The 0.3% rise in average hourly earnings** that we forecast would leave the 12-month pace at 3.9%. The pace is its slowest since early pandemic, but 3.9% is still rapid.

**The unemployment rate is probably unchanged** (to one decimal place) inching up in our forecast from 3.86% in April to 3.91% in May. The labor force participation rate is expected to be unchanged at 62.7% ([Exhibit 14](#) & [Exhibit 15](#)).

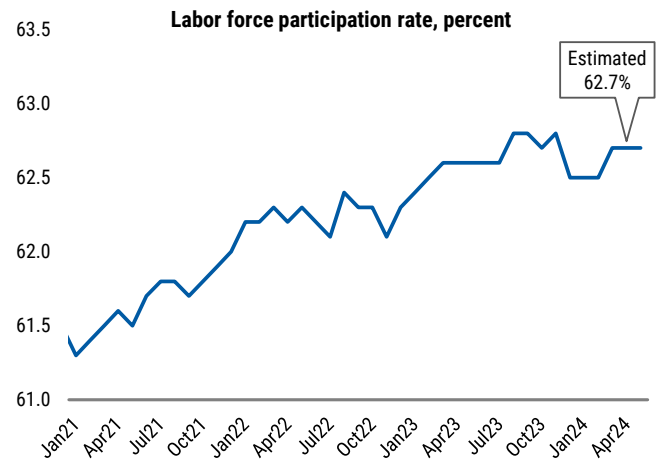
Through April, the unemployment rate had risen nearly  $\frac{1}{2}$  point from 12-months earlier despite rapid payroll growth of 235k per month on average in that period. Labor force growth has been large enough to absorb rapid employment growth. With fast immigration, we estimate that payroll increase of about 265k per month is consistent with an unchanged unemployment rate. See [Exhibit 16](#).

**Exhibit 14:** We forecast the unemployment rate stalls at 3.9%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

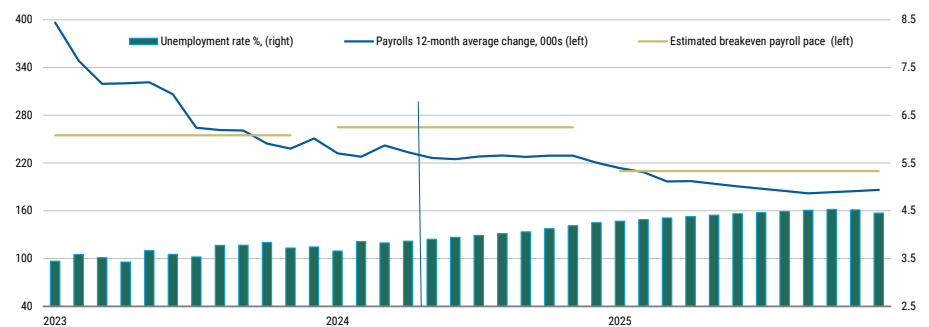
**Exhibit 15:** We expect labor force participation remains at 62.7%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

**Exhibit 16:**

We estimate that payrolls are running somewhat below the breakeven pace that holds the unemployment rate unchanged. We expect the unemployment rate to continue to inch up.



Source: BLS, Morgan Stanley Research

## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

## Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflict/policies](http://www.morganstanley.com/institutional/research/conflict/policies). A Portuguese version of the policy can be found at [www.morganstanley.com.br](http://www.morganstanley.com.br)

## Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V. which is regulated by Comisión Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FCO118); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM0000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at 18th Floor, Tower 2, One World Center, Plot- 841, Jupiter Textile Mill Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: [tejarshi.hardas@morgan](mailto:tejarshi.hardas@morgan)

stanley.com; Grievance officer details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: msic-compliance@morganstanley.com; in Canada by Morgan Stanley Canada Limited; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the United States by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, disseminates in the UK research that it has prepared, and research which has been prepared by any of its affiliates, only to persons who (i) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"); (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) may otherwise lawfully be communicated or caused to be communicated. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia, and is directed at Sophisticated investors only.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

Registration granted by SEBI and certification from the National Institute of Securities Markets (NISM) in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Investment in securities market are subject to market risks. Read all the related documents carefully before investing.