A More Complex Report Than the Headlines Suggest

The headline (**Establishment**) jobs numbers were great: 339k jobs added with 283k in the private sector AND 93k of upward revisions. That is in line with or even better than yesterday's **ADP** report. At this point, I have no idea why we have the **Challenger** layoff report because it doesn't seem to reflect any of the jobs data.

However, the **Household** report said that we lost 310k jobs in the month (and in the past 2 months, we have lost 170k jobs on a cumulative basis). The **unemployment rate** ticked higher to 3.7% from 3.4%. That is based on jobs lost in the Household report since the **participation rate** remained unchanged (except for rounding).

So, the jobs numbers that we all saw this morning scream HIKE! However, the unemployment rate just says hike (or even pause).

Hourly earnings were revised down a touch last month (but remain above 4%). For those at the Fed who believe that wage inflation is the key driver of inflation, that will tilt them slightly hawkish.

Hours worked continued to slide from 34.6 hours in January to 34.3 hours in May (often a prelude to declining hiring needs).

I think that we have to price in:

- The possibility of a June hike has increased (higher 2-year yields).
- The likelihood that the Fed will have to react to the strength in the report and ignore the weak parts (more inversion of 2s vs 10s).

Given ADP, I can see how we are going to run with the "job market is great" scenario. However, the new ADP methodology was adjusted to better track NFP so I'm not sure what to make of that. I guess that we need to look at participation rates (or why the birth/death model created 231k jobs) to poke holes in the report.

On the **garbage in/garbage out** front, the Household report is back to showing a significant deviation from the Establishment report. I think that even accounting for the wide margin of error in the Establishment report (and the even larger margin of error in the Household report), they are not telling the same story.

So, the Fed will treat this as hawkish, the bulls will cheer this as "soft or no landing", and the bears will find enough to say that the potential for a recession still exists.

Risk assets could power through this data (which would be a positive event) and I would like to see "good news" treated as "good news" even if it increases the probability of a hike!