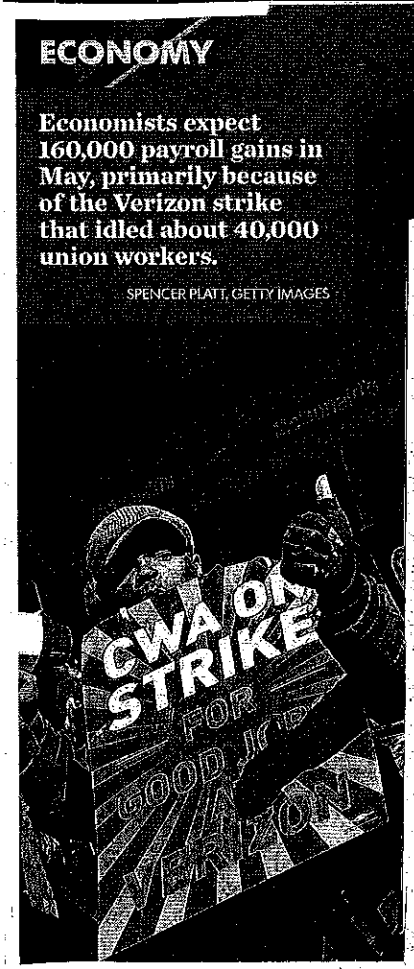


Economists expect 160,000 payroll gains in May, primarily because of the Verizon strike that idled about 40,000 union workers.

SPENCER PLATT, GETTY IMAGES



MAY JOBS REPORT HANGS OVER ANXIOUS MARKETS

The big question: Is there enough strength for Fed to raise interest rates this month?

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The big event is Friday, and every piece of economic data leading up to the May employment report is being parsed for clues whether the Federal Reserve is seeing the kind of strength that might prompt it to raise interest rates at a mid-June meeting.

Wednesday, two reports painted a mixed picture:

▶ U.S. factory activity picked up more rapidly in May in a sign that the effects of weakness overseas and in the nation's oil patch may be easing. The Institute for Supply Management's manufacturing index rose to 51.3 from 50.8 in April. A reading above 50 indicates expansion, and one below that means contraction. Economists expected 50.3 and said the report could give the Fed reason to believe the troubles that have plagued the nation's factories may be waning.

▶ Then the Fed's beige book appeared to depict more sluggish activity than previous editions, saying the economy grew modestly across most of the nation in April and early May. Those reports followed news Tuesday that consumer spending increased a better-than-expected 1% in April, the most since August 2009.

But the report likely to get the most attention ahead of Friday is from payroll processor ADP on Thursday. A weaker-than-expected ADP report on jobs created in the private sector generally foreshadowed April's disappointing employment report. Economists expect the ADP report to show 175,000 new jobs in May.

And on the data point that really matters — Friday's May employment from the Labor Department — economists expect 160,000 payroll gains in May, matching the previous month's total. That would be below the recent 200,000-plus average, but primarily because of the Verizon strike that idled about 40,000 union workers.

Such a showing, along with a rise in wage growth, could help sway Fed policymakers to raise rates in June.

Currently, futures markets are predicting a 24% chance the Fed will hike in June, up from about 6% a month ago, according to options and futures exchange CME Group. For the July meeting, odds are now 60% vs. 19%.

Although the U.S. stock market fell 12% after the Fed raised rates in December, the increasing likelihood of another quarter-point increase doesn't appear to worry Wall Street. The benchmark Standard & Poor's 500 index is within 2% of an all-time high.

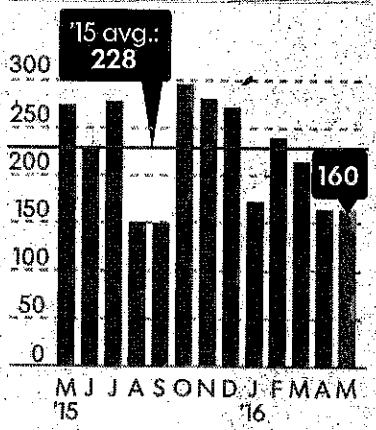
Brad McMillan, chief investment officer at Commonwealth Financial Network, says if the Fed does hike in June, the question will be how many more times will the central bank raise this year.

More than one or two would be a "big shift," he says.

Contributing: Adam Shell

JOBS FORECAST

The U.S. labor market gained a lower-than-expected 160,000 jobs in April. Similar numbers are expected in May. Jobs added, in thousands:



SOURCE Bureau of Labor Statistics

GEORGE PETRAS AND KRIS KINKADE, USA TODAY

Just last Friday, Fed Chair Janet Yellen said it's "appropriate" to increase interest rates "gradually and cautiously ... in the coming months" if data relating to the economy and jobs strengthen.