Strong Gains In Hiring Put Eyes on Fed

Wages, payrolls pick up after winter lull, giving central bank assurance economy is firming

By Kate Davidson

U.S. employers ramped up hiring last month, signaling a rebound in overall growth after a bumpy start to the second quarter and nudging the Federal Reserve toward its first interest-rate increase in nearly a decade.

Nonfarm payrolls jumped by 280,000, wage growth improved and more Americans joined the workforce, signs the labor market is nearing what the Fed considers "full" employment. The economy also added more jobs in April and March than the Labor Department first reported.

"The U.S. economy has emerged from its first-quarter lull," Moody's economist Ryan Sweet said. "The second quarter got off to a slow start—the April data was disappointing across the board, but the May data is looking much better. It suggests the economy is gaining momentum."

The jobless rate ticked up slightly to 5.5%, but the increase reflected positive developments. The number of people looking for jobs increased faster than the number of jobs available.

The report also suggested Americans' paychecks are finally starting to grow. Average hourly earnings of private-sector workers rose 0.3% from the prior month. Earnings were up 2.3% in May from a year earlier, slightly better than the 2% annual pace of recent years and the strongest gain since August 2013.

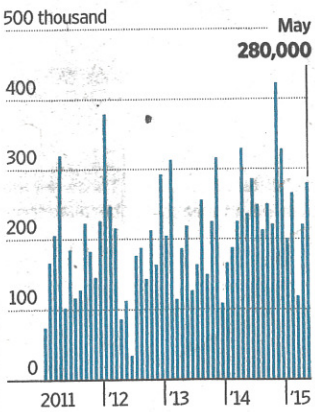
Economists said the pickup in wages, coupled with robust job growth, is likely to reassure Fed officials the economy is healthy enough to begin raising interest rates from near zero as soon as their September policy meeting.

Stocks and bonds fell as investors recalibrated rate expectations. The Dow Jones Industrial

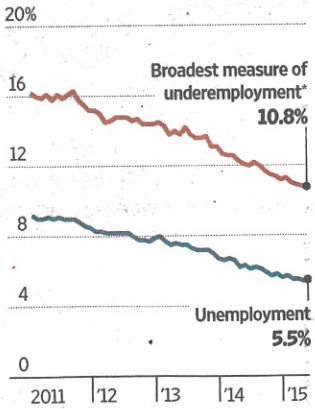
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Monthly change in nonfarm payrolls



Unemployment rates



Note: Figures are seasonally adjusted

*Unemployed, plus marginally attached workers plus those employed part time for economic reasons.

Source: Labor Department

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Note: Long-term averages are since 1985, except for discouraged workers, for which figures begin in

Source: Labor Department

JOBS

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Average lost 56.12, or 0.3%, to 17849.46. Bond prices tumbled, with the yield on benchmark 10-year Treasurys climbing to an eight-month high of 2.402%; prices and yields move oppositely.

Low interest rates have been a boon for companies like Guidant Financial, a Bellevue, Wash.-based firm that helps small businesses finance acquisitions or expansions. Guidant expanded its workforce about 20% last year, and expects to boost payrolls by an additional 15% in 2015.

"We're in an environment that the economy is moving at a pretty good clip...and you've got businesses that are willing to make investments like hiring," Chief Executive David Nilssen said.

But Mr. Nilssen said the firm's growth is dependent on businesses being opened and growing. As monetary policy starts to shift, "the concern is, does that change both the businesses' ability to invest and the consumers' ability to spend?"

The economy stumbled in the early months of 2015, as severe winter weather, a stronger U.S. dollar, weak global demand and a slowdown at West Coast shipping ports weighed on economic growth. Businesses scaled back investment plans, productivity dropped and consumers stashed away the money they saved from lower gasoline prices.

The slowdown in consumer spending, which accounts for more than two-thirds of economic output, suggests Americans are reluctant to open their wallets despite nearly a year of cheaper gasoline and strong job gains.

Laura Cialini, 26 years old, spent more than two years searching for a job after graduating from Virginia Commonwealth University with degrees in criminal justice and psychology. She moved back into her mother's house just outside Philadelphia and jumped from job to job before landing last month at the law firm Drinker Biddle & Reath LLP, where she coordinates printing projects such as court motions or conference materials.

Despite landing a better job with higher pay, Ms. Cialini said

cans with jobs or looking for work—ticked up to 62.9% from 62.8%. But the figure remains around the lowest since the late 1970s.

Also, a broad measure of unemployment that includes Americans stuck in part-time jobs or people who are unemployed but have looked for work in the past 12 months was unchanged in May at 10.8%.

Despite the rosier outlook for hiring, the economy faces long-term challenges. Sluggish productivity growth threatens to restrain overall economic growth and wages. The latest data out this week showed productivity fell at a 3.1% seasonally adjusted annual rate in the first quarter.

"The most important factor determining living standards is productivity growth, defined as increases in how much can be produced in an hour of work," Federal Reserve Chairwoman Janet Yellen said in a speech last month. "Over time, sustained increases in productivity are necessary to support rising incomes."

Wage growth remains below the pace seen at this stage of prior economic expansions, particularly with payroll growth and unemployment at today's levels.

But just about every sector of the economy is expanding employment. Professional and business services added 63,000 jobs last month. Leisure and hospitality payrolls grew by 57,000. Health care, retail trade and construction also added positions.

One exception was the energy industry, which has been pummeled since last year by a steep drop in oil prices. The mining sector shed 11,000 jobs last month, the fifth straight month of declines. Companies have announced plans to cut back on equipment for construction projects in the energy sector.

"With oil prices dropping in half, we saw a lot of projects get either delayed or canceled," Mr. Kinning said. The firm expects to miss revenue projections for that business line by up to 25%.

The company has shed about 200 workers since the end of 2014, bringing its workforce to just over 1,000 people. But there is one upside: It's gotten much easier to find welders. "There was a huge scarcity during the oil and gas boom, and that's sort of relaxed," Mr. Kinning said.

Still, RK is in the early stages of planning to build a new manufacturing plant near Denver, and it expects to hire about 200 additional workers by year's end.

Though the overall pickup in wages is far from robust, it suggests competition for workers is intensifying—an important signal of diminishing slack in the labor market.

Demand for workers is far outstripping supply for clients of Robert Half International Inc., a California-based staffing firm that works with companies in professional and business services sectors such as accounting, technology and law. Budgets for raises are being revised up and firms have had to offer higher pay and bring in workers they can't find locally said Paul McDonald, a senior executive director at the firm.

"We're finding in some of the sectors a 10% to 20% increase in compensation on the open market, where you may have budgeted 4% or 5%. It's not enough to retain the person," Mr. McDonald said.