U.S. job growth dramatically slows in May amid trade tensions

Washington, June 14 (RHC)-- U.S. job growth slowed sharply in May and wages rose less than expected, suggesting that the loss of momentum in economic activity was spreading to the labor market, which could increase calls for the Federal Reserve to cut interest rates this year.

The cool-off in hiring reported by the Labor Department was even before a recent escalation in trade tensions between the United States and two of its major trading partners, China and Mexico. Economists have warned that the trade fights could undermine the economy, which will celebrate 10 years of expansion next month, the longest on record.

The economy thus far has been largely resilient to the trade war with China. President Donald Trump in early May slapped additional tariffs of up to 25% on $200 billion of Chinese goods, which prompted retaliation by Beijing.

Last week, Trump said he would impose a tariff on all goods from Mexico in a bid to stem the tide of migrants across the U.S.-Mexican border.

Nonfarm payrolls increased by 75,000 jobs last month, the government said in its closely watched employment report, falling below the roughly 100,000 needed per month to keep up with growth in the working-age population.

The risk of an economic recession in the United States has grown to the highest level in seven years, according to a survey by economists. May's disappointing job growth was flagged by a report on Wednesday from payrolls processing firm ADP showing the smallest gain in private payrolls in nine years last month. Another report this week showed a drop in online ads by businesses looking for help.

Last month's slowdown in job gains, however, probably understates the health of the labor market as measures such as weekly applications for unemployment benefits and the Institute for Supply Management's services employment gauge have suggested underlying strength.

Monthly wage growth remained moderate in May, with average hourly earnings increasing six cents, or 0.2% following a similar gain in April. That lowered the annual increase in wages to 3.1% from 3.2% in April. The average workweek was unchanged at 34.4 hours last month.

The moderation in wage gains, if sustained, could cast doubts on the Fed's optimism that inflation would return to the US central bank's 2% target. Financial markets are pricing in two rate cuts this year.

The tepid employment report added to soft data on consumer spending, business investment, manufacturing and homes sales in suggesting the economy was losing momentum in the second quarter following a temporary boost from exports, inventory accumulation and defense spending. Growth is cooling as the massive stimulus from last year's tax cuts and spending increases fades.

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