ECONOMIC UPDATE

REGIONS

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July Employment Report: Flawed Report Likely Overstating The Case

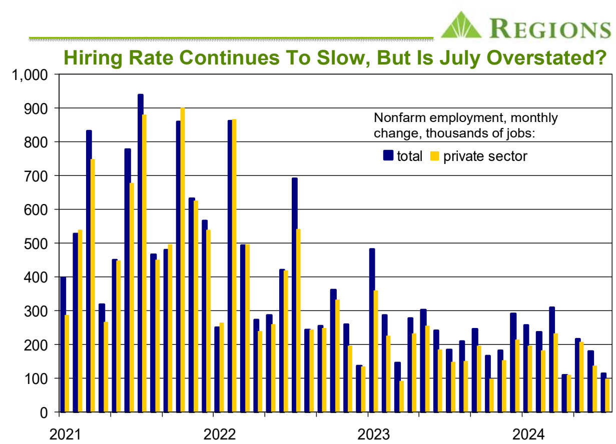
- Nonfarm employment rose by 114,000 jobs in July; prior estimates for May and June were revised down by a net 29,000 jobs
- Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings were unchanged (up 4.9 percent year-on-year)
- The unemployment rate rose to 4.3 percent in July (4.253 percent, unrounded); the broader U6 measure rose to 7.8 percent

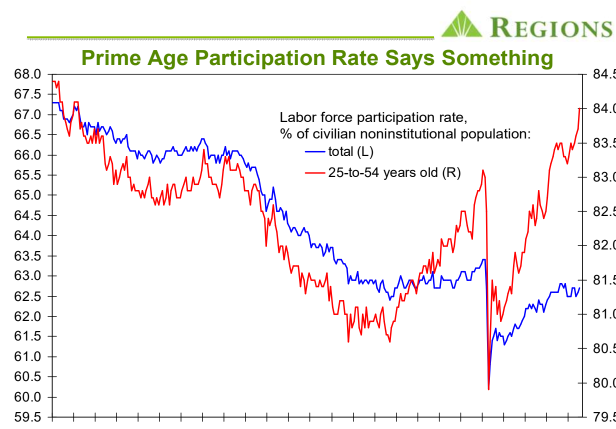
If perception becomes reality, then does actual reality actually matter? Or something like that. Right off the bat, the July employment report is weak, perhaps even shockingly weak. At least if one goes no further than the headline numbers. Total nonfarm employment rose by 114,000 jobs, falling well short of our below-consensus forecast of 169,000 jobs, with private sector payrolls up by just 97,000 jobs. Prior estimates of job growth in May and June were revised down by a net 29,000 jobs for the two-month period. The unemployment rate rose to 4.3 percent while the broader U6 measure, which also accounts for underemployment, jumped to 7.8 percent. The average length of the private sector workweek fell to 34.2 hours and average hourly earnings rose by just 0.2 percent. That set of numbers suggests a labor market struggling to stay afloat, and it is that set of numbers that sent yields on U.S. Treasury securities tumbling this morning and ratcheted up pricing of Fed funds rate cuts, including a markedly higher probability of a fifty-basis point cut at the September FOMC meeting being priced in. Moreover, those who have been arguing the economy is either already in or barreling into recession are having a field day with the July employment report. We cannot control how anyone interprets or how markets react to the July employment report, neither is actually our job. Our job is, as always, to try and interpret what, if anything, the July employment report actually says about labor market conditions. Our answer is, as has unfortunately become more common with the monthly employment reports, "not a lot."

In this week's *Economic Preview*, we pointed to three factors that could cloud the July data: notably low collection rates for the establishment survey; Hurricane Beryl having impacted millions of people during the July survey period, and much higher than normal July temperatures that likely impacted hours worked. All of these factors are readily apparent in the July data. The initial collection rate for the July establishment survey was 56.4 percent, the lowest July collection rate since 1991, leaving an even bigger than normal gap for the BLS to fill in with their own estimates. Despite the BLS saying Hurricane Beryl had "no discernable effect" on the July data, the household survey shows 436,000 people did not work at all during the survey period due to harsh weather while 1.079 million people who normally work full-time worked part-time due to weather conditions. Also recall that in the establishment survey one must be physically present for work to be counted as employed; the weekly data on initial claims for unemployment benefits show a spike in claims in Texas after Beryl hit, suggesting a drag on payroll employment. How on earth all of this constitutes "no discernable effect" is beyond us. We'll also note that the average workweek for construction workers fell by six-tenths of an hour in July, weighing on overall average weekly hours.

We will also reiterate a point we've been making about the household survey data for the past several months, as this is also readily apparent in the July data. The participation rate amongst the 25-to-54 year-old age cohort, the "prime working age" population, rose to 84.0 percent in July, the highest since March 2001, and employment amongst this cohort rose by 247,000 persons in July. At the same time total employment amongst those 24 and younger and 55 and older fell by 551,000 people. This same pattern has been evident in the household survey data for months, though those who continue to point to "weak" household employment as being the more reliable gauge of labor market conditions have seemingly failed to notice this. We will, once again, ask if the labor market were really deteriorating to the extent implied by the rising jobless rate, shouldn't there be evidence of that in the data pertaining to a group – the prime age cohort – that accounts for roughly two-thirds of the labor force?

Again, we cannot control the reactions to any given data release. We have, however, been quite consistent for some time now in arguing that the body of data shows a labor market that is cooling but not collapsing, with slowing job growth reflecting less hiring as opposed to more layoffs. It will take more than a highly flawed July employment report to change our view. We have argued that job growth has been neither as strong as implied by the establishment survey nor as weak as implied by the household survey and have yet to see convincing evidence to the contrary. We'll note that BLS will release the preliminary estimates of the annual benchmark revisions to the establishment survey data on August 21, which we expect will reinforce our argument about payroll job growth having been overstated in the monthly reports.





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