ECONOMIC UPDATE
REGIONS
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August Employment Report: Another Big Swing, Same Stable Trend . . .

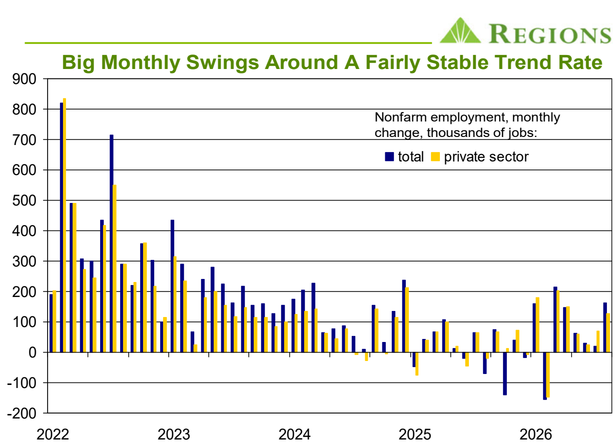
- Nonfarm employment rose by 162,000 jobs in August; prior estimates for June and July were revised up by a net 55,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.7 percent (up 4.3 percent year-on-year)
- The unemployment rate held at 4.1 percent in August (4.141 percent, unrounded); the broader U6 measure fell to 7.7 percent

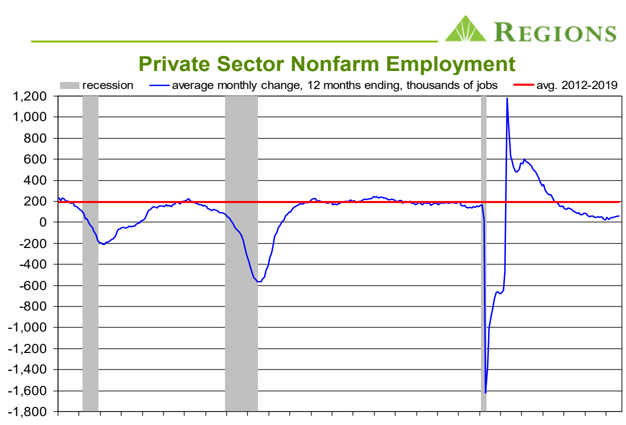
Total nonfarm payrolls rose by 162,000 jobs in August, handily topping our forecast of 121,000 jobs and blowing past the consensus forecast of 55,000 jobs, with private sector payrolls up by 127,000 jobs and public sector payrolls up by 35,000 jobs (we expected private sector payrolls to be up by 103,000 jobs). At the same time, prior estimates of job growth in June and July were revised up by a net 55,000 jobs for the two-month period. Job growth was notably broad based in August, with the one-month hiring diffusion index, a measure of the breadth of job growth across private sector industry groups, jumping to 55.6 percent – you have to go back to January 2024 to find a higher reading. Average hourly earnings rose by 0.3 percent, and while this was shy of the 0.4 percent increase our forecast anticipated, July's print was revised higher, leaving the year-on-year increase of 3.1 percent right where our forecast expected it would be. Of far more relevance is that between the increase in payrolls and the one-tenth of an hour increase in the average length of the workweek, aggregate private sector wage and salary earnings rose by 0.7 percent in August, leaving them up 4.3 percent year-on-year. While the labor force participation rate ticked up by two-tenths of a point, the unemployment rate held at 4.1 percent as there was a similarly large increase in household employment. The broader U6 measure, which also accounts for underemployment, fell to 7.7 percent in August from 7.9 percent in July, largely owing to a sharp drop in the number of those working part-time for economic reasons.

In the immediate aftermath of the release of the August employment report, the discussion revolved around what it means for the FOMC, with some arguing that "an unequivocally strong" report pretty much locks in a Fed funds rate hike at this month's meeting. The problem, as usual, is that many are looking at the latest set of data in isolation and, apparently, going no further than the headline number before drawing sweeping conclusions. A quick glance at our first chart below should illustrate the folly of this all-too-common approach to assessing the various economic data reports, particularly the employment reports. Even if the August report was "unequivocally strong," which it is not, it follows a couple of middling job growth prints (despite the upward revisions) and keeps alive a pattern of sizable swings in the headline job growth prints around a fairly steady trend, as our second chart below shows. For instance, the not seasonally adjusted data show job growth more or less settling in at an average of just over 57,000 jobs per month, well below the pre-pandemic trend but more than enough to keep the jobless rate steady.

If it seems odd that we're downplaying the August job growth print despite having had a far above consensus forecast, recall that our forecast was predicated on there being payback for seasonal adjustment noise in prior months in two segments – leisure and hospitality services and local government, as we discussed in this week's *Economic Preview*. That proved to be the case, with payrolls in leisure and hospitality services up by 62,000 jobs and local government payrolls up by 50,000 jobs. We'd argue that neither is telling us anything about underlying labor market conditions. More notably, construction payrolls were up by 22,000 jobs, with support from nonresidential construction. Additionally, manufacturing payrolls were up by 16,000 jobs, almost fully accounted for by durable goods producing industries despite a drop in payrolls amongst vehicle producers. This squares with the run of strong growth (still ongoing) in core capital goods orders.

We'd similarly rein in anyone tempted to draw sweeping conclusions about the reported increase in the labor force, up by 683,000 persons in August. This still leaves the labor force smaller, by 688,000 persons, than it was in January. Moreover, of August's reported increase, only 28,000 of that is accounted for by the "prime age" cohort, i.e., those between twenty-five and fifty-four years old. Instead, it was the tails of the age distribution that drove August's increase. A smaller than typical August outflow amongst 16-to-24 year-olds in the not seasonally adjusted data translated into an increase of 287,000 persons in the seasonally adjusted data. At the same time, the number of those in the 55-to-64 year-old cohort is reported to have jumped by more than 300,000 persons in August (spoiler alert – expect payback on both counts in the September data). So, the big jump in August notwithstanding, we continue to argue that anemic labor supply growth remains a powerful drag on job growth, pointing to the importance of faster sustained productivity growth.





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