ECONOMIC UPDATE
REGIONS
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## August Employment Report: A Solid Report Still Leaves A Long Road Ahead

- Nonfarm employment rose by 1.371 million jobs in August; prior estimates for June/July were revised down by a net 39,000 jobs
- Average hourly earnings rose by 0.4 percent in August; aggregate private sector earnings rose by 1.5 percent (down 2.5 percent year-on-year)
- The unemployment rate fell to 8.4 percent in August; the broader U6 measure fell to 14.2 percent

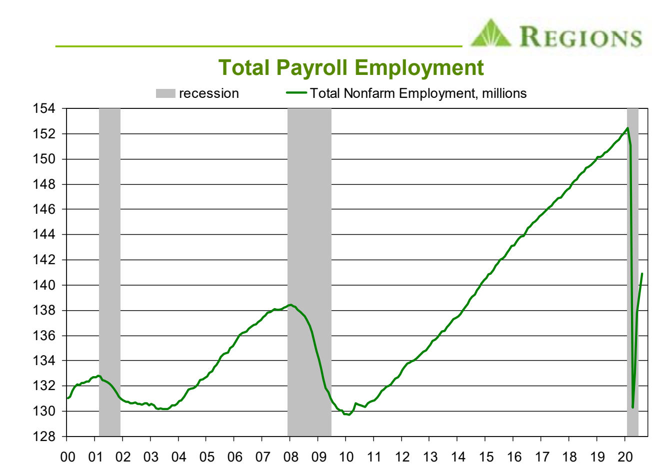
Total nonfarm employment rose by 1.371 million jobs in July, with private sector payrolls up by 1.027 million jobs and public sector payrolls up by 344,000 jobs. The unemployment rate fell to 8.4 percent in August, as an increase in the labor force participation rate was overwhelmed by the increase in household employment, which was up by 3.756 million people. The broader U6 rate, which also accounts for underemployment, fell from 16.5 percent in July to 14.2 percent in August, reflecting a sharp decline in the number of those working part-time for economic reasons (down by 871,000) along with the large decline in the number of those unemployed (down by 2.788 million). Average hourly earnings were up by 0.4 percent which, along with a one-tenth of an hour increase in the average length of the workweek and the increase in payrolls, pushed aggregate private sector wage and salary earnings up by 1.5 percent in August, though this still leaves them down 2.5 percent year-on-year.

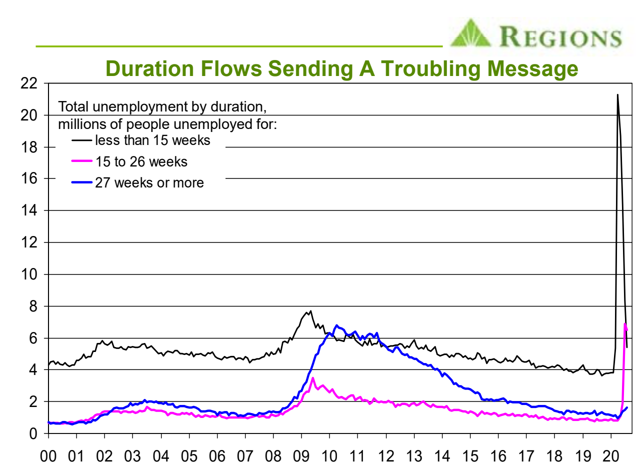
Though job growth was broad based across private sector industry groups in August, it remained highly concentrated amongst retail trade, leisure and hospitality services, and education and health services, with these three industry groups accounting for 55.5 percent of total private sector job growth. In other words, while more private sector industry groups added workers in August, those increases were fairly modest outside of these industry groups. Keep in mind that these three industry groups were the hardest hit by the shutdowns in economic activity in March and April, and even with the sizable increases logged over the past four months, the level of employment in each of these industry groups remains well below the pre-pandemic level. It should also be noted that there is a good degree of seasonal adjustment noise in the August data. August is typically a seasonally weak month for retail trade and leisure and hospitality services – on a not seasonally adjusted basis, employment in these two industry groups tends to decline in the month of August. This August, however, unadjusted employment in these two industry groups increased, reflecting the further normalization in economic activity. But, as the seasonal adjustment factors are geared for declines in employment in August, the result is inflated estimates of job growth in the seasonally adjusted data, i.e., the reported increases of 249,000 jobs in retail trade and 174,000 jobs in leisure and hospitality services. Of the increase in jobs in leisure and hospitality services, 134,000 came from restaurants. The point here isn't to try to poke holes in what is overall a solid August employment report, but to put the numbers in proper context. And, while the whole discussion of seasonal adjustment issues may seem like shop talk of interest to no one outside of the economics profession, the reality is that the distortions from seasonal adjustment are likely to get larger over the next few months, and it is our task to sift through any such noise.

The increase in public sector payrolls was helped along by the 238,000 temporary workers hired by the Census Bureau, jobs that will go away in the fall. Local government payrolls rose by 95,000 jobs – we had anticipated seasonal adjustment issues would lead to a decline in this segment, which proved not to be the case, but, again, the September data could be significantly impacted by seasonal adjustment issues. Payrolls in manufacturing rose by 29,000 jobs, though producers of durable goods accounted for only 2,000 of these jobs, which is somewhat odd in light of the sharp rebound in durable goods orders over recent months.

Much of the decline in the number of unemployed came from those who had previously been laid off being called back to work, which goes to our point about job gains in what is typically a seasonally weak month in retail trade and leisure and hospitality services. Still, the number of job losers reporting a permanent job loss increased to 3.411 million people in August, almost three times the pre-pandemic run rate. Moreover, the duration of unemployment stretched further in August, with a median duration of 16.7 weeks – the median duration was 9.0 weeks a year ago. Though there has been significant re-hiring in those industries which were quick to shed workers in March and April, it is also clear that the incidence of permanent job losses, including some that began as temporary layoffs, is increasing.

The August employment report was stronger than we expected. That said, while the labor market is clearly healing, it remains far from healthy.

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