



This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

August Employment Report: Grudging, But Not Substantial, Further Progress

- Nonfarm employment rose by 235,000 jobs in August; prior estimates for June/July were revised up by 134,000 jobs
- Average hourly earnings rose by 0.6 percent while aggregate private sector earnings rose by 1.0 percent
- The unemployment rate fell to 5.2 percent in August (5.190 percent, unrounded); the broader U6 measure fell to 8.8 percent

Total nonfarm employment rose by 235,000 jobs in August, well below our forecast of 521,000 jobs and even further below the consensus forecast of 725,000 jobs. Private sector payrolls were up by 243,000 jobs in August, with public sector payrolls falling by 8,000 jobs. Over the past several months, however, estimates of public sector job counts have been significantly skewed by seasonal adjustment issues tied to the education segment of state and local government, and as such should be discounted. While August job growth fell far short of expectations, prior estimates of job growth in June and July were revised up by a net 134,000 jobs for the two-month period, the second straight month in which the net upward revision for the prior two-month period was over 100,000 jobs. We'll go out on a limb now and say next month will make it three in a row. The unemployment rate fell to 5.2 percent in August, matching our forecast, as hiring outpaced another meager increase in the labor force. Average hourly earnings were up 0.6 percent, and aggregate private sector earnings were up 1.0 percent, extending a run of solid monthly increases.

In our weekly *Economic Preview*, we asked whether the dreaded "August effect" would hold, and whether rising COVID cases had adversely impacted the labor market in August. Our answer to each question was "yes," and while it does look like there are COVID-related effects, it will be two more months before there is an answer to the first question. Recall that in any given year, the initial estimate of August job growth significantly understates job growth; over the last five years the initial estimate of August job growth has been revised upward by an average of 75,000 jobs by the final estimate, and there is no reason to think this August will be different. That, however, is no more than meaningless noise, and we point it out simply to help put today's number in context.

Of more significance is the magnitude of any COVID-related effects. For instance, on a seasonally adjusted basis, payrolls in leisure and hospitality services were unchanged in August, but on a not seasonally adjusted basis they were down by 74,000 jobs. At the same time, seasonally adjusted retail trade payrolls fell by 28,500 jobs, while the not seasonally adjusted data show a decline of 64,000 jobs. Various spending and mobility

trackers suggest consumers pulled back spending in areas such as travel, dining out, and in-store shopping in August, so in that context the declines in employment in these areas make sense, and it could be that employers in these areas pulled normal end of summer job reductions ahead given softer demand. The decline in temp help payrolls, which tend to be sensitive to changes in economic conditions, would also be a sign of potential COVID-related effects on the labor market in August.

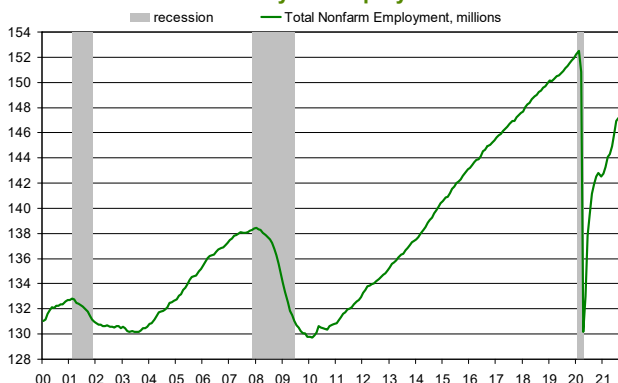
The not seasonally adjusted data show combined state and local government education payrolls increased by 267,500 jobs in August. We had expected a larger increase given how low job counts in this segment had been pushed by disrupted school years and that so many schools were gearing up for returns to in-person instruction. With a smaller than normal August increase in the raw data, the seasonally adjusted data show education payrolls in state and local government falling by 26,400 jobs. Again, though, this category will remain noisy at least through the September data, which will weigh on reported top-line job growth.

Average hourly earnings rose by 0.6 percent in August, which to some extent reflects mix issues – weakness in leisure and hospitality services and retail trade payrolls helped boost overall average hourly earnings. Of more relevance, aggregate private sector earnings rose by 1.0 percent for a second straight month and have grown strongly over the past several months. This bodes well for personal income growth, particularly as pandemic-related increases in transfer payments run their course.

At the time of its release, we thought the July employment report was unambiguously strong, and revisions make it even stronger. We do not think the labor market deteriorated as much last month as the August employment report implies. Yet, since many will see the August employment report solely in the context of what it might mean for the FOMC as they deliberate tapering the Fed's monthly asset purchases, we'll say the August data reflect grudging further progress rather than the substantial further progress the FOMC is looking for, thus giving them the latitude to punt on a decision at their September meeting.



Total Payroll Employment



Will The Dreaded "August Effect" Hold In 2021?

