ECONOMIC UPDATE

REGIONS

September 2, 2022

August Employment Report: Jump In Participation Pushes Jobless Rate Higher

- Nonfarm employment rose by 315,000 jobs in August; prior estimates for June and July were revised down by107,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.3 percent (up 9.4 percent year-on-year)
- The unemployment rate rose to 3.7 percent in August (3.650 percent, unrounded); the broader U6 measure rose to 7.0 percent

Total nonfarm employment rose by 315,000 jobs in August, topping our below-consensus forecast of 272,000 jobs, with private sector payrolls up by 308,000 jobs and public sector payrolls up by 7,000 jobs. Prior estimates of job growth in June and July were revised down by a net 107,000 jobs, split almost evenly between the private and public sectors. Average hourly earnings rose by 0.3 percent, with aggregate private sector wage and salary earnings also up 0.3 percent, leaving them up 9.4 percent year-on-year. A dip in the average length of the workweek held down the month-to-month increase in aggregate wage and salary earnings. The unemployment rate rose to 3.7 percent in August as a surge in labor force participation more than offset a sizable gain in household employment, thus swelling the ranks of the unemployed. This, along with an increase in the number of those working part-time for economic reasons, resulted in the broader U6 measure (which also accounts for underemployment) rising to 7.0 percent from 6.7 percent in July.

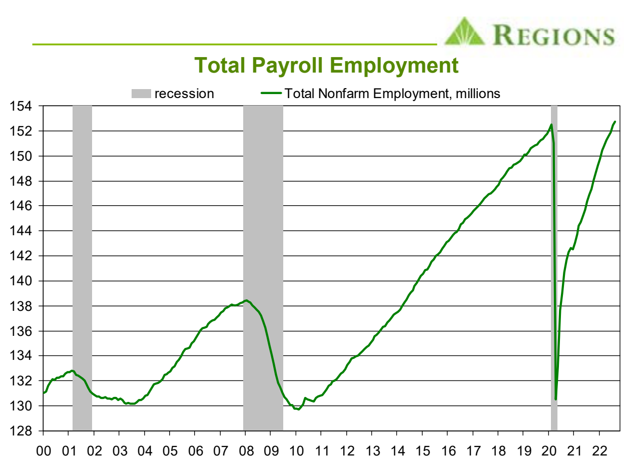
While the initial estimate of August job growth will be revised, the extent to which that is the case remains to be seen. The initial August estimate in any year tends to be much lower than the final count – the dreaded "August effect" – as what is typically a below-average response rate to the BLS's establishment survey biases measured job growth lower. For instance, over the past five years, the average upward revision between the first and third estimates of August job growth is 119,000 jobs. This August's response rate was the lowest for the month since 2006, but this comes amid what is now a lengthy run of notably low response rates. Time will tell, but odds are that, when all is said, done, and revised, August job growth will be stronger than was reported today.

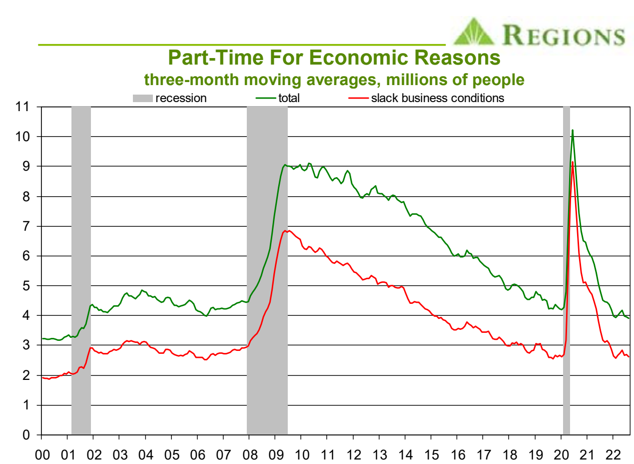
While job growth remained broad based in August, it was less so than over the past several months. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, fell to 62.1 percent in August from 69.7 percent in July and 71.1 percent in June. August's job gains were led by education and health services and business services, each sector adding 68,000 jobs, and retail trade, which added 44,000 jobs, though this increase is entirely accounted for by friendly seasonal adjustment, as unadjusted retail trade payrolls fell 23,000 jobs. The same is true of leisure and hospitality services, with seasonally adjusted payrolls up by 31,000 jobs but unadjusted payrolls down by 96,000 jobs, a larger decline (measured by the percentage change) than is typical for this sector in the month of August.

Aside from a slightly narrower base of hiring across the private sector, the decline in the average length of the workweek bears noting. As we've frequently noted, at times of turns in demand, firms tend to alter hours worked before they alter head counts. That declines in average weekly hours were broad based across industry groups, with a notably large decline in manufacturing, is consistent with a slowdown in the pace of economic activity. At the same time, the number of those working part-time for economic reasons due to slack business conditions rose in August. This series comes from the household survey, the data from which are inherently more volatile than the data from the establishment survey, so we prefer to look at this series on a three-month moving average basis, as shown in our second chart below. In the months ahead, part-time due to slack business conditions and average weekly hours will be two key indicators of the extent to which the demand for labor is softening that will turn before layoffs would begin to rise significantly.

The labor force increased by 786,000 people in August, though this follows declines in three of the prior four months, going to our point about the inherent volatility in the household survey data. As such, at 62.4 percent as of August, the participation rate is about where we expected it would be at this point, it just got there by a different route. Of more relevance is that participation amongst the 'prime working age" cohort, i.e., those aged 25-to-54 years-old, rose sharply in August, particularly amongst females, and is only slightly below pre-pandemic norms.

We don't see the August employment report as changing much for the FOMC. Despite rising in August, the jobless rate remains well below what most FOMC members would equate with full employment, while inflation remains far above the FOMC's target rate. As such, we still expect a 75-basis point funds rate hike at this month's FOMC meeting.





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