ECONOMIC UPDATE

REGIONS

September 1, 2023

August Employment Report: (Wide) Open To Interpretation

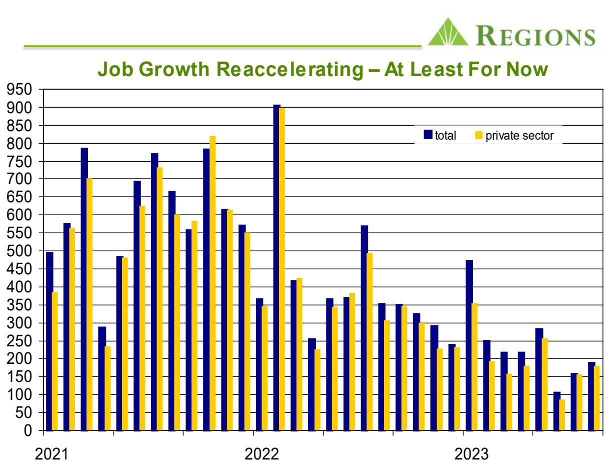
- Nonfarm employment rose by 187,000 jobs in August; prior estimates for June and July were revised down by a net 110,000 jobs
- Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings rose by 0.7 percent (up 6.1 percent year-on-year)
- The unemployment rate rose to 3.8 percent in August (3.764 percent, unrounded); the broader U6 measure rose to 7.1 percent

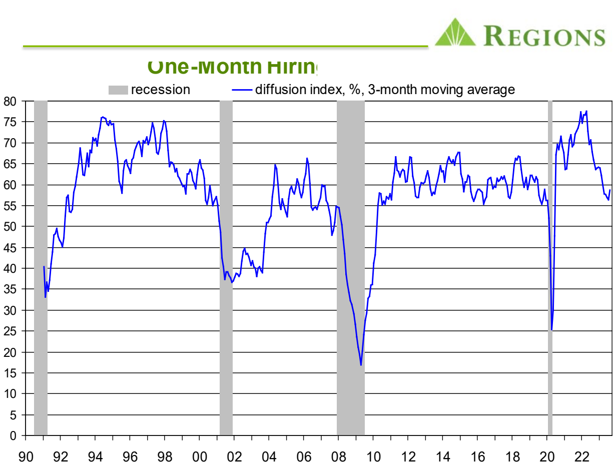
Total nonfarm employment rose by 187,000 jobs in August, more than we and the consensus expected, with private sector payrolls up by 179,000 jobs and public sector payrolls up by 8,000 jobs. Prior estimates of job growth in June and July were revised down by a net 110,000 jobs for the two-month period, and with 30,000 fewer jobs added in July than had first been reported, that means that the initial estimate of job growth in each month of 2023 has subsequently revised lower. One issue has been the notably low response rates to the BLS's establishment survey, and August proved no exception with an initial response rate of 59.3 percent, the second lowest since the onset of the pandemic, which is when we first started to see response rates fall meaningfully. Were it not for a set of special factors, reported August job growth would have been much higher. The SAG-AFTRA strike took more than 16,000 jobs off payrolls in information services, Yellow Inc.'s bankruptcy took around 30,000 jobs out of transportation and warehousing services, and seasonal adjustment issues resulted in reported declines in the education segment of state and local government as the school year started up. Seasonal adjustment issues also played into the reported increase in the labor force, which in turn pushed the unemployment rate up to 3.8 percent. The broader U6 measure rose from 6.7 percent in July to 7.1 percent in August as the number of those working part-time for economic reasons jumped. Average hourly earnings rose by 0.2 percent, while between the increase in employment and the one-tenth of an hour increase in the average length of the workweek aggregate private sector earnings rose by 0.7 percent, pushing the year-on-year increase up to 6.1 percent. Prior to the release of the August employment report, we noted that it would likely contain a considerable degree of noise, making it difficult to know just what to make of it. At least we nailed one part of our forecast . . .

The one-month hiring diffusion index, a measure of the breadth of job growth across private sector industry groups, rose to 63.8 percent in August. While that may seem to alleviate concerns over what had been a narrowing base of job growth over the prior several months, we'll note that estimates of the diffusion index over the prior few months were revised lower, along with estimates of job growth. This raises the point that it isn't only the estimate of headline job growth that is impacted by low response rates to the establishment survey, which casts a cloud over the reported increase in the hiring diffusion index. As has been the case over the past several months, health care led overall job growth, with the addition of 70,900 jobs in August, with leisure and hospitality services chipping in another 40,000 jobs, though this reflects a smaller than expected decline in not seasonally adjusted payrolls in this industry group. Construction payrolls rose by 22,000 jobs, with nonresidential construction behind that increase. Payrolls in truck transportation fell by 36,700 jobs, mainly but not entirely a function of Yellow Inc. shuttering operations. This should not deflect attention away from what over the past several months been clear weakness in trade and transportation payrolls, to a large degree tied to shifts in consumer spending patterns.

A smaller outflow of younger adults than is typically seen in August – you have to go back to 1962 to find an August in which the drop in the number of 16-to-19 year-olds in the labor force was smaller than this year – helped inflate the seasonally adjusted estimate, thus contributing to the increase in the unemployment rate. Note that striking workers did not impact the unemployment rate, though former Yellow workers yet to find new positions would have. Still, the participation rate amongst the "prime working age" cohort (25-to-54 years old) ticked higher in August and, at 83.5 percent, is above the pre-pandemic norm. The number of those working part-time for economic reasons rose in August, in part on an increase in the number of those doing so due to slack business conditions.

The August employment report is (wide) open to interpretation. A beat on headline job growth that probably understates the case, a longer workweek, and an expanded breadth of hiring all suggest a robust labor market. All of those numbers, however, are clouded by a glaringly low response rate to the establishment survey and a string of downward revisions to prior estimates of job growth. As we noted, we're not sure what to make of all of this, but our sense remains that, underneath it all, the labor market is continuing to cool.





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