ECONOMIC UPDATE

REGIONS

September 6, 2024

August Employment Report: Trend Rate Of Job Growth Continues To Slow

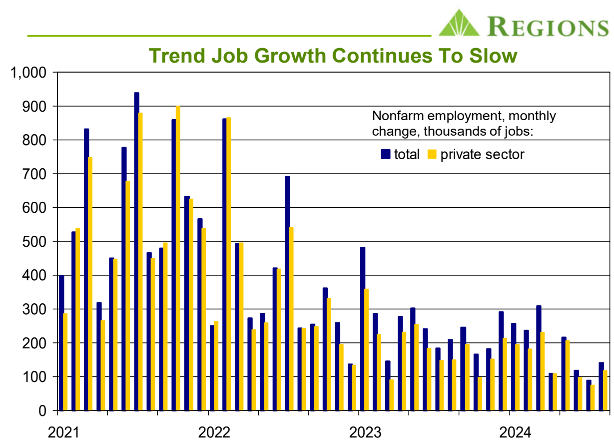
- Nonfarm employment rose by 142,000 jobs in August; prior estimates for June and July were revised down by a net 86,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.8 percent (up 5.0 percent year-on-year)
- The unemployment rate fell to 4.2 percent in August (4.221 percent, unrounded); the broader U6 measure rose to 7.9 percent

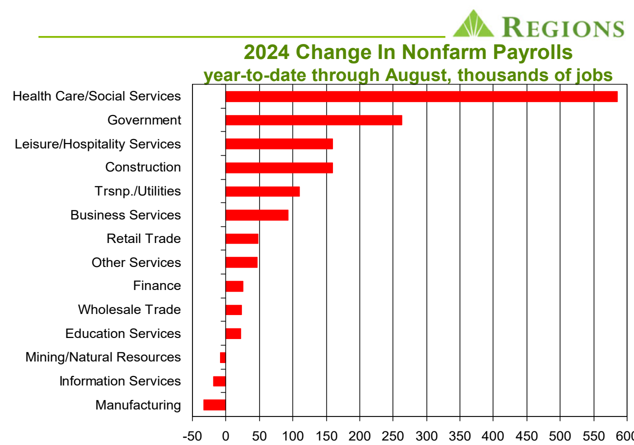
Total nonfarm employment rose by 142,000 jobs in August, below the 165,000 gain expected by the consensus forecast and further below the increase of 208,000 jobs our forecast anticipated. Prior estimates of job growth in June and July were revised down by a net 86,000 jobs for the two-month period, with the bulk of that coming from the second estimate of June job growth. Average hourly earnings rose by 0.4 percent, matching our above-consensus forecast, while the average length of the workweek rose by one-tenth of an hour. The combination of job gains, growth in average hourly earnings, and the longer workweek pushed aggregate private sector earnings up 0.8 percent in August, leaving them up 5.0 percent year-on-year, each matching our forecast. Hiring was more broadly based across the private sector in August, with the one-month hiring diffusion index rising to 53.4 percent. After having risen to 4.3 percent in July, the unemployment rate fell to 4.2 percent in August, largely reflecting a reversal of most of the sharp increase in the number of those reporting to have been on temporary layoff in July. The broader U6 rate, which also accounts for underemployment, rose to 7.9 percent in August on an increase in the number of people working part-time for economic reasons.

In this week's *Economic Preview*, we listed what we saw as three potential follow-ups to a July employment that we saw as being heavily impacted by noise in the data, some of which was tied to Hurricane Beryl: the August data would show a sharp rebound in job growth, the July data would be revised higher, or the August data would be as weak as the July data, indicating a much sharper deterioration in labor market conditions than we had anticipated, and we further noted that if either of the first two proved to be the case, the reasonable reaction would have been to take the average of job growth over July and August as the more reliable gauge of the underlying trend. While neither of the first two proved to be the case, neither did the third, as job growth picked up and was more broadly based in July, aggregate hours worked increased, and the unemployment rate fell. As such, we're not sure how much the August employment report does to change what for months has been our assessment of labor market conditions, i.e., the demand for labor is clearly cooling, but this has thus far been reflected in a dimming pace of hiring as opposed to a rising pace of layoffs. The downward trend in job vacancies points to the slowing pace of hiring, while not seasonally adjusted initial claims for unemployment insurance benefits having been below 200,000 in each of the past three weeks, an unusually low level, goes to the point about layoffs not rising. As to the ongoing issues we have for some time been pointing to as clouding the signals being sent by the monthly employment reports, those are still with us. The initial collection rate to the August establishment survey was 57.8 percent, the lowest August rate since 2006, while the household survey data continue to show curious divides across age/gender lines.

One factor contributing to the slowing pace of job growth over recent months is that hiring amongst the "big three" industry groups – health care, leisure and hospitality services, and government – has slowed. As we've noted, given the outsized contributions these industry groups had been making to overall job growth, a slowdown in any, let alone all, of these industry groups would have an outsized impact on total job growth, which is what the data are showing. In August, payrolls in health care and social assistance rose by 44,000 jobs, the smallest monthly increase since January 2022, and hiring in the other two members of the big three has also slowed. These three groups were laggards in adding back jobs shed during the pandemic but, having largely caught up it would follow that hiring would at some point slow, which is one reason to think job growth will settle into a range more consistent with August's increase. One thing that does stand out in the August data is the sharp decline in manufacturing payrolls, which fell by 24,000 jobs in Augst, with notable weakness in employment amongst producers of transportation equipment, which includes but it not limited to motor vehicle production.

Though we clearly missed the mark in terms of what to expect from the August employment report, the data are in line with what for months has been our take on the labor market, i.e., cooling, but not collapsing. The question, however, is whether cooling gives way to collapse or whether we settle into a slower, more sustainable pace of job growth. While we expect the latter, it will take time for that question to be answered.





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