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July Employment Report: May/June Job Growth Virtually Vanishes, Is July Next?

- Nonfarm employment rose by 73,000 jobs in July; prior estimates for May and June were revised down by a net 258,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.7 percent (up 5.3 percent year-on-year)
- The unemployment rate rose to 4.2 percent in July (4.248 percent, unrounded); the broader U6 measure rose to 7.9 percent

Total nonfarm employment rose by 73,000 jobs in July, a bit under our below-consensus forecast of 83,000 jobs, with private sector payrolls up by 83,000 jobs and public sector payrolls down by 10,000 jobs. Though below the consensus forecast, the July job growth number would not in and of itself have shocked anyone. Instead, the shocking part of the July report comes from the revision to prior estimates of job growth in May and June, with a net downward revision of 258,000 jobs for the two-month period. We don't think our use of the word "shocking" is being overly dramatic. After all, we have for the better part of the past two years been pointing to low initial collection rates to the BLS's establishment survey as diminishing the reliability of the initial estimate of job growth in any given month. To that point, the July rate was only 57.6 percent, the third time in the past four months with an initial collection rate of below sixty percent. As firms backfill survey data over the subsequent two months, the estimates of job growth in any given month will change.

It is more than fair, however, to ask how that can account for the size of the revision to the May/June data given that this is a long-running problem and we haven't seen revisions of this magnitude. Our thought is that this in part reflects the establishment survey data catching up to, or is it down to, the household survey data. We have been pointing to weakening trends in the foreign born labor force since late last year, and have noted that the foreign born labor force contracted by more than 1.14 million persons during the second quarter. It could be that when filling in the gaps left by low establishment survey collection rates, the BLS has been overstating monthly job growth, as we've argued has been the case, but as firms have filled in gaps from the May and June surveys it could be that the holes left by the contraction in the foreign born labor force are now being reflected in the establishment survey data. To that point, in July the foreign born labor force declined by 506,000 persons and foreign born employment declined by 467,000 persons. Over the past four months, the foreign born labor force has fallen by 1.653 million persons and foreign born employment has fallen by 1.461 million persons. While those figures come from the household survey, we do not think it all that much of a reach to suggest that this is now, at least to some extent, being

reflected in the establishment survey data. With another low collection rate, the BLS's initial July job growth numbers will almost surely change.

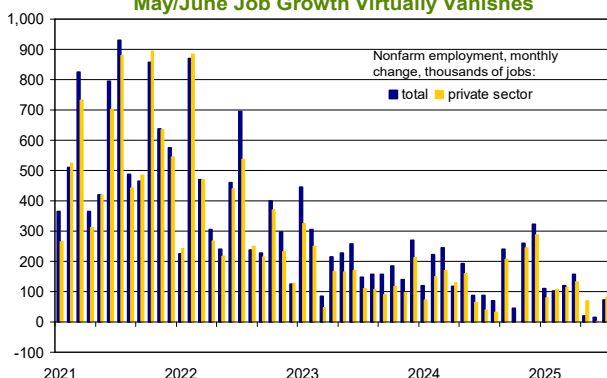
We'll also note that public sector payrolls are now reported to have fallen by a net 39,000 jobs over the May/June period, as opposed to having risen by a net 80,000 jobs as previously reported. A month ago, we cautioned that the reported increase in public sector payrolls – up by 73,000 jobs – was no more than seasonal adjustment tied to the education segment of state and local government running amok. The downward revision in part accounts for that and in part reflects more job losses amongst federal government workers. Either way, that still leaves 139,000 fewer private sector jobs added over the May/June period than previously reported.

To our point about firms backfilling gaps left in prior months' survey responses, the not seasonally adjusted data show smaller increases in payrolls in June than were initially reported, and this is particularly the case in industry groups, most notably construction and leisure and hospitality services, that have tended to be more reliant on foreign born labor. To be sure, demand for single family home purchases and demand for travel/lodging/recreation services has been weak, which will help account for subdued hiring. But, we think it would be unwise to not at least consider the labor supply side of the hiring equation.

Our arguing that slowing job growth is more a reflection of the effects of immigration reform than of higher tariffs/uncertainty over trade policy puts us at odds with those who point to the latter as being the root of all ills with the economy. One place we think that argument to be more on point is the manufacturing sector, which shed 8,000 jobs in July and 37,000 jobs over the past three months. Many manufacturers have been absorbing higher tariffs, and with order frontloading largely having run its course, factory sector output and employment are bearing the cost. Still, the factory sector is not alone, as the breadth of hiring across the private sector has narrowed sharply. That is, in part, a reflection of softer overall demand. At the same time, however, we do not think that labor supply constraints should be ruled out as a contributing factor, particularly given the sharp declines in the foreign born labor force.



May/June Job Growth Virtually Vanishes



Part-Time For Economic Reasons

three-month moving averages, millions of people

