ECONOMIC UPDATE

REGIONS

August 2, 2019

July Employment Report: Decent Headline Masks One Glaring Weakness

- Nonfarm employment rose by 164,000 jobs in July; prior estimates for May/June were revised down by a net 41,000 jobs
- Average hourly earnings rose by 0.3 percent in July; aggregate private sector earnings rose by 0.1 percent (up 4.4 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in July (3.712 percent, unrounded); the broader U6 measure fell to 7.0 percent

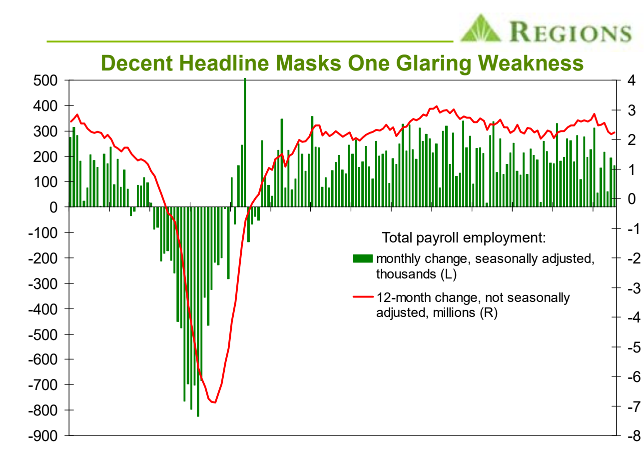
Total nonfarm employment rose by 164,000 jobs in July, falling a bit short of our forecast of 179,000 jobs, with private sector payrolls up by 148,000 jobs and public sector payrolls up by 16,000 jobs. Prior estimates of job growth in May and June were revised down by a net 41,000 jobs for the two-month period. Of this, 27,000 jobs came off of prior counts of public sector job growth, which last month we noted had been suspiciously large. The unemployment rate held at 3.7 percent, while the broader U6 measure, which also accounts for underemployment, fell to 7.0 percent, the lowest since December 2000. Average hourly earnings rose by 0.3 percent in July, leaving them up 3.2 percent year-on-year.

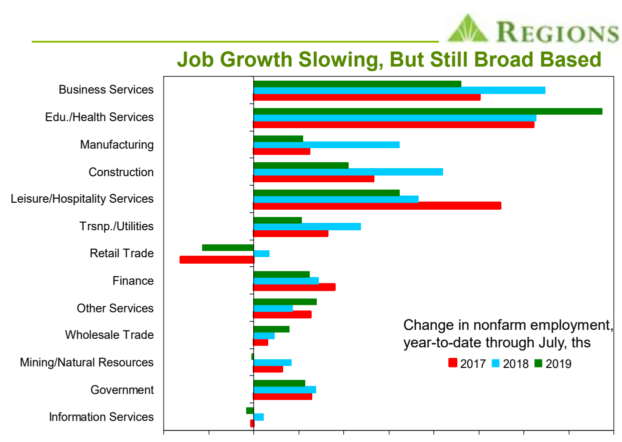
On the surface, the July employment report seems in line with recent trends and the slower pace of job growth is not out of line with what we and most other analysts expected coming into this year. But, there is one glaring weakness in the July data that should not be overlooked. The length of the average workweek fell to 34.3 hours, down from an already low 34.4 hours in June. While that may not seem large enough to matter, each one-tenth of an hour change in the average workweek of private sector workers is the equivalent of over 300,000 jobs in terms of the economy's productive capacity. To that point, aggregate private sector hours worked declined at an annualized rate of 0.7 percent in July. The other major implication of the shorter workweek is an anemic increase in aggregate private sector wage and salary earnings, the largest single component of personal income, In July, aggregate private sector earnings rose by just 0.11 percent, yielding a year-on-year increase of 4.36 percent, the smallest such increase since October 2017. We have often noted that the workweek was shorter than would be the case were the economy truly operating at full employment, which we see as an underappreciated form of labor market slack. It is too soon to know what the shorter workweek in July means, or even if it will survive revision, but if this shorter workweek does persist, it will be a sign of softening labor demand.

On a more positive note, job growth remained notably broad based in July, with the one-month hiring diffusion index rising to 59.9 percent. That hiring remains so broad based is a sign that, despite the pace of growth having slowed, the current economic expansion has longer to run. Job growth amongst the goods producing industries slowed in July, as we anticipated would be the case, with construction payrolls up by 4,000 jobs and manufacturing adding 16,000 jobs while payrolls in mining and natural resources fell by 5,000 jobs. We are, however, wary of the reported increase in manufacturing payrolls, particularly the reported 7,200-job increase in motor vehicle production – July is a month in which properly seasonally adjusting the raw data in this category is inherently difficult due to annual plant shutdowns for retooling. Also, while the seasonally adjusted data show ongoing job losses in retail trade, the not seasonally data show retail payrolls have risen in each of the past four months, so, you know, maybe go a little easy on the "all retail is going dark" narrative. It should also be noted that the number of people either working part-time hours or not at work at all due to weather are well above normal for the month of July, as has been the case in recent months. This could be one factor that held down average weekly hours in July.

The July labor force data are highly suspect. The labor force is reported to have risen by 370,000 people while household employment is reported to have risen by 283,000 people. In each case, the increase is more than accounted for by the 65-and-older age cohort – the number of people from this age cohort in the labor force rose by 445,000 people in July, or so we are told, while the number in the 25-to-54 year-old age cohort, a/k/a the prime working age population, fell by 221,000. As we have noted, the data from the Current Population Survey, from which the estimates of the labor force, household employment, and the unemployment rate are drawn, are increasingly unreliable as we get further and further from the Decennial Census, and that is apparent in the details of the CPS data.

It is simply too soon to interpret the shorter workweek in the July data. Aside from that, however, labor market conditions remain healthy, and the pace of job growth remains more than sufficient to keep downward pressure on the jobless rate and upward pressure on wage growth.





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