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### August Employment Report: Labor Market Not Immune To Macro Headwinds

- Nonfarm employment **rose** by 130,000 jobs in August; prior estimates for June/July were revised **down** by a net 20,000 jobs
- Average hourly earnings **rose** by 0.4 percent in August; aggregate private sector earnings **rose** by 0.8 percent (up 4.5 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in August (3.687 percent, unrounded); the broader U6 measure **rose** to 7.2 percent

Total nonfarm employment rose by 130,000 jobs in August, with private sector payrolls up by 96,000 jobs and public sector payrolls up by 34,000 jobs. The gain in public sector payrolls, which includes 25,000 jobs tied to the 2020 Census, was in line with our forecast of an increase of 36,000 jobs, but private sector job growth fell far short of our forecast of an increase of 162,000 jobs. As we noted in our weekly *Economic Preview*, over the 2009 through 2018 period the initial estimate of August job growth was revised higher by an average of 59,000 jobs between the first and third estimates, in part due to what have tended to be low response rates to the BLS's establishment survey for August. At 75.2 percent, however, the response rate this August is easily above average for the month, which suggests that any upward revisions to this year's initial estimate of August job growth will be smaller than the average over the past decade. The jobless rate held at 3.7 percent despite a higher labor force participation rate, but the broader U6 measure, which also accounts for underemployment, rose to 7.2 percent on an increase in the number of people working part-time for economic reasons. Average hourly earnings rose by 0.4 percent, while aggregate private sector wage and salary earnings are up 4.5 percent year-on-year.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, fell to 53.5 percent in August, the lowest since May 2016. We have often referred to the hiring diffusion index as our favorite beneath the headlines labor market indicator, in part because of its record as a reliable indicator of turns in the business cycle – a steadily narrowing base of hiring is a sign of an expansion running out of steam. To be sure, the hiring diffusion index can be jumpy from one month to the next, which is why we focus on the three-month moving average. Nonetheless, the decline in August should not be dismissed, and this is clearly worth watching over coming months. In August, business/professional services (up 37,000 jobs) and education & health services (up 32,000 jobs) posted the largest job gains amongst private sector industry groups, while retail trade (down by 11,000 jobs) and mining/natural resources (down by 5,000 jobs) were the notable laggards.

Additionally, payrolls in truck transportation fell by 4,500 jobs. We've been pointing to softening freight markets as a natural extension of weakness in the factory sector and diminished trade flows, and we expect further job losses in this category. At the same time, however, steady hiring amongst delivery services and warehousing operations is the flip side of the ongoing decline in retail trade employment, though there will not be an exact offset nor will the geographic profile of hiring in these industry groups match the geographic profile of job losses in retail trade, with the latter being more dispersed than the former.

Average hourly earnings were up 0.4 percent in August, good for an over-the-year increase of 3.2 percent. As we routinely note, however, it is aggregate wage and salary earnings that matter more, as this is the single largest component of total personal income. Along with the jump in hourly earnings, the one-tenth of an hour increase in the average length of the workweek fueled a 0.8 percent increase in aggregate private sector wage and salary earnings in August, which yields a 4.5 percent year-on-year increase. While we cannot account for the discrepancy, we will note that the details from the monthly reports on personal income have consistently shown materially larger increases in private sector labor earnings than implied by the details of the monthly employment reports.

As to the data from the household survey, what stands out is that the rise in the labor force participation rate was sparked by a sizeable inflow of those in the 25-to-54 year-old age cohort, or, the "prime working age" population. Participation amongst this age cohort rose to 82.6 percent, matching January's rate as the highest since 2009. We see further upside for participation amongst this age cohort over coming quarters.

Though job growth was disappointingly weak in August, the details on earnings and participation remain solid. This tells us that, while resilient, the labor market is by no means immune from the headwinds holding down overall economic growth. The August employment report aligns with a 25-basis point cut in the Fed funds rate as this month's FOMC meeting, but does not support a larger 50-basis point cut.

