

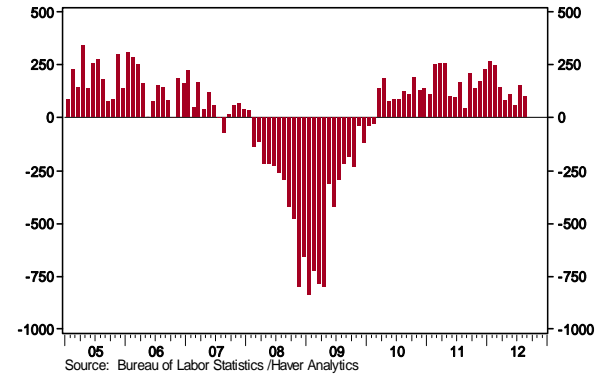
August Employment Report

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- Non-farm payrolls increased 96,000 in August (55,000 with downward revisions to June/July). The consensus expected a gain of 130,000.
- Private sector payrolls increased 103,000 in August (83,000 with downward revisions to June/July). August gains were led by restaurants & bars (+28,000), professional & tech services (+27,000), and health care (+17,000). The weakest sector was manufacturing (-15,000).
- The unemployment rate fell to 8.1% from 8.3%.
- Average weekly earnings – cash earnings, excluding benefits – were unchanged in August but up 1.7% from a year ago.

Implications: Today’s labor market report was disappointing. Payrolls continued to grow in August, but at a slower pace than the consensus expected, up only 55,000 including revisions to prior months. This does not mean the economy is going back into recession; it just means we’re not breaking out of the modest “plow horse” growth path of the past couple of years. In our view, a breakout requires a change in public policy on taxes, spending, and regulation. Some firms are waiting until the election to decide whether to invest, whether to hire, and how much. Sometimes, the details in a report show better growth than the payroll headline, but not this time. Civilian employment, an alternative measure of jobs that includes small business startups, declined 119,000. Although the unemployment rate fell to 8.1%, the drop was due to the labor force declining by 368,000. The labor force participation rate dropped to 63.5%, the lowest since 1981. (Note: the labor force is still up 720,000 from a year ago even as the jobless rate is down a full percentage point.) The news on hours and earnings were also soft. Average weekly hours were revised down for July and unchanged in August; average hourly earnings were flat in August as well. Still, a proxy for consumer purchasing power – total cash earnings, which excludes fringe benefits – are up 3.8% from a year ago, so we expect consumer spending to keep growing. One thing to keep in mind, is that we have seen similar job reports before at a similar time of year. Private payrolls grew at an average pace of 261,000 from February to April 2011 before averaging 109,000 in the four months through August 2011. This year, private payrolls grew an average of 226,000 in the first quarter before slowing to an 111,000 pace in the past four months. In other words, some of the fluctuations in job creation appear to be seasonal. Another example is auto manufacturing, up 14,000 in July but down 8,000 in August, following a similar pattern as last year. If these patterns continue to hold, expect a stronger jobs report next month. The big question is what all this means for next week’s meeting at the Federal Reserve. We still think a third round of quantitative easing would be a mistake; the economy needs better fiscal and regulatory policy, not more excess reserves in the banking system. But today’s news gives Chairman Bernanke no reason to change his “grave” concern about the labor market or support for QE3.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Aug-12	Jul-12	Jun-12	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	8.1	8.3	8.2	8.2	8.2	8.4
Civilian Employment (monthly change in thousands)	-119	-195	128	-62	6	178
Nonfarm Payrolls (monthly change in thousands)	96	141	45	94	97	151
Construction	1	0	4	2	-8	1
Manufacturing	-15	23	7	5	13	17
Retail Trade	6	-2	-9	-2	2	7
Finance, Insurance and Real Estate	7	-2	3	3	6	5
Professional and Business Services	28	47	41	39	33	48
Education and Health Services	22	38	3	21	29	35
Leisure and Hospitality	34	28	14	25	19	26
Government	-7	-21	-18	-15	-16	-14
Avg. Hourly Earnings: Total Private*	0.0%	0.1%	0.3%	1.5%	1.5%	1.7%
Avg. Weekly Hours: Total Private	34.4	34.4	34.5	34.4	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.1%	-0.2%	0.4%	1.3%	0.0%	2.0%

*3, 6 and 12 month figures are % change annualized