

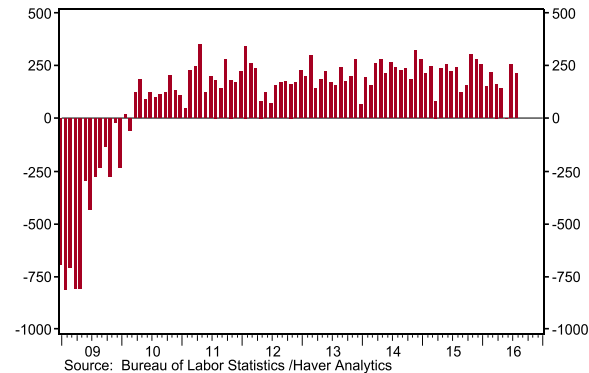
July Employment Report

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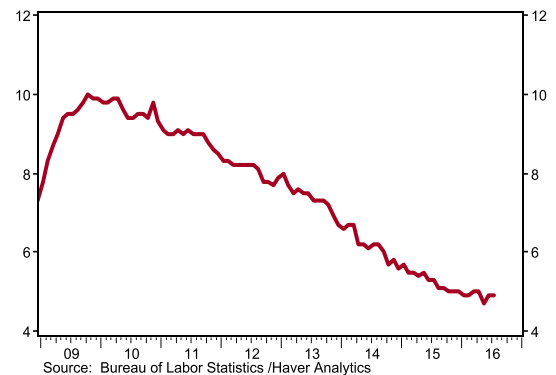
- Nonfarm payrolls increased 255,000 in July, easily beating the consensus expected 180,000. Including revisions to May/June, payrolls rose 273,000.
- Private sector payrolls increased 217,000 in July, although revisions to prior months subtracted 1,000. The largest gains in June were for professional & business services (+70,000, including temps), leisure & hospitality (+45,000), and health care (+43,000). Manufacturing payrolls rose 9,000 while government rose 38,000.
- The unemployment rate remained at 4.9%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in July and are up 2.6% versus a year ago.

Implications: This is why you should never read too much into one employment report. A couple of months ago, the government said payroll growth was the slowest in several years. Pessimists went into overdrive, the Fed postponed rate hikes, and some analysts started warning of an impending recession. But, since then payrolls are up 547,000 in only two months. Payrolls rose 255,000 in July, easily beating consensus expectations and coming in higher than any forecast from any economics group. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 420,000. In the past year, payrolls are up 204,000 per month while civilian employment is up 221,000 per month. The unemployment rate held steady at 4.9% in July, but that was due to a welcome 407,000 increase in the labor force. In the past year, the jobless rate has declined from 5.3% even as the labor force has grown 2.2 million. The labor force participation rate ticked up to 62.8% in July and so far this year has been consistently at or above the 62.6% average for 2015. This signals that cyclical improvement in the labor market is temporarily outweighing headwinds from retiring Boomers, easily available disability benefits, and overly generous student aid. Perhaps the best news in today's report was on wages and hours. Average hourly earnings, which exclude fringe benefits and irregular bonuses/commissions, grew 0.3% in July and are up 2.6% versus a year ago. Hours worked rose 0.5% in July and are up 1.6% in the past year. Combined, total cash earnings are up 4.3% from last year, giving workers plenty of purchasing power. One negative detail in the report was that the median duration of unemployment rose to 11.6 weeks. Duration has remained stubbornly higher than usual for this stage of the economic expansion, confirming that some workers who have been out of work are having trouble finding jobs. In other recent news on the labor market, new claims for jobless benefits increased 3,000 last week to 269,000. The four-week moving average is 260,000. Continuing claims declined 6,000 to 2.14 million. It's still very early, but these figures suggest another solid month for job growth in August. Although the market's odds on a rate hike this year jumped after today's report, those odds still favor the next rate hike coming in 2017. We still think the Fed raises rates this year and that the odds of two rate hikes in 2016 are higher than the odds of none at all.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Jul-16	Jun-16	May-16	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.9	4.9	4.7	4.8	4.9	5.0
Civilian Employment (monthly change in thousands)	420	67	26	171	162	221
Nonfarm Payrolls (monthly change in thousands)	255	292	24	190	189	204
Construction	14	-3	-18	-2	6	18
Manufacturing	9	15	-17	2	-6	-3
Retail Trade	15	26	0	14	22	24
Finance, Insurance and Real Estate	18	15	16	16	15	14
Professional and Business Services	70	53	32	52	46	46
Education and Health Services	36	58	46	47	52	53
Leisure and Hospitality	45	52	3	33	28	35
Government	38	33	25	32	21	13
Avg. Hourly Earnings: Total Private*	0.3%	0.1%	0.2%	2.5%	2.5%	2.6%
Avg. Weekly Hours: Total Private	34.5	34.4	34.4	34.4	34.4	34.5
Index of Aggregate Weekly Hours: Total Private*	0.5%	0.2%	0.0%	2.7%	1.1%	1.6%

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