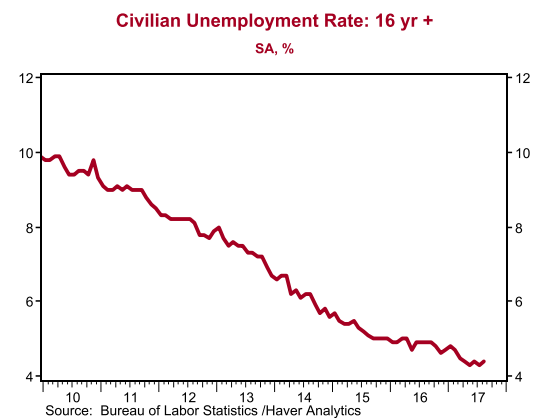
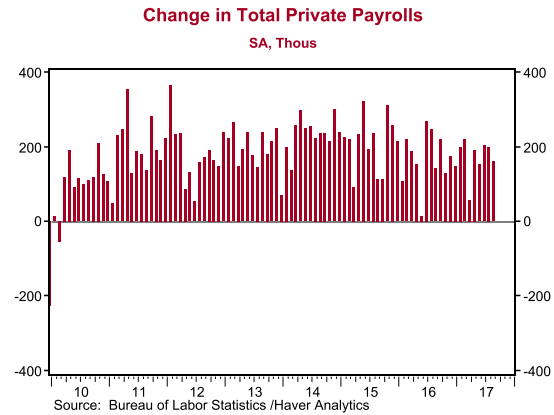


August Employment Report

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- Nonfarm payrolls increased 156,000 in August, lagging the consensus expected 180,000. Including revisions to June/July, nonfarm payrolls were up 115,000.
- Private sector payrolls increased 165,000 in August and revisions to prior months added 10,000. The largest gains were for professional & business services (+40,000, including temps), manufacturing (+36,000), and construction (+28,000). Government fell 9,000.
- The unemployment rate ticked up to 4.4% in August from 4.3% in July.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in August and are up 2.5% versus a year ago.

Implications: Taken at face value, the August employment report was on the soft side of the trend of the past several years. Nonfarm payrolls increased 156,000, falling short of the consensus expected 180,000. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, declined 74,000. In addition, average hourly earnings rose only 0.1% while the total number of hours worked slipped 0.2%. However, it's important to take the August jobs report with a grain of salt. In the past ten years, the initial report on August payrolls has been revised up by an average of 50,000 over the next two months. A classic example is August 2011, which was initially reported as zero growth in payrolls, sending pessimists into a tizzy about an oncoming recession. But, only two months later, August was revised up to a gain of 104,000. Although some analysts will focus on today's downward revisions to payroll growth in June and July, all of the downward revisions were for government jobs, which we see as a positive; private payrolls were revised up by 10,000. Moreover, the underlying trends for wages and hours remain healthy. Average hourly earnings are up 2.5% from a year ago, while total hours worked are up 2%. Multiplying the number of hours worked by wages per hour, total earnings are up 4.6% from a year ago. In an environment where consumer inflation is running below 2%, that gain in total earnings plus low debt service ratios for households leaves plenty of room for more purchasing power. Looking at the futures market, the odds of the Federal Reserve raising interest rates in December are about one-in-three. By contrast, we think they're about 75% and that the Fed is still on track to announce the start of balance sheet reductions at the meeting later this month. Although the unemployment rate ticked up to 4.4% in August, that's still below the Fed's consensus that the longer-run average is 4.7%. In the past year, payrolls are up 175,000 per month while civilian employment is up 187,000 per month. Both of these figures are higher than what the Fed and some other experts estimate is "sustainable" based on population growth and the aging demographics of the US labor force. We have a more bullish outlook on the labor market. At 62.9%, the participation rate remains low by the standards of the last 40 years, but the 12-month moving average has been gradually rising since early 2016. We think that trend will continue and will accelerate if we get better policies from Washington, DC, like lower marginal tax rates and less government spending.



Employment Report <i>All Data Seasonally Adjusted</i>	Aug-17	Jul-17	Jun-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.4	4.3	4.4	4.4	4.4	4.6
Civilian Employment (monthly change in thousands)	-74	345	245	172	152	187
Nonfarm Payrolls (monthly change in thousands)	156	189	210	185	160	175
Construction	28	-3	15	13	8	18
Manufacturing	36	26	21	28	17	12
Retail Trade	1	-2	-4	-2	-10	-3
Finance, Insurance and Real Estate	10	10	15	12	11	12
Professional and Business Services	40	50	44	45	48	50
Education and Health Services	25	54	40	40	36	40
Leisure and Hospitality	4	58	38	33	34	27
Government	-9	-13	3	-6	-4	1
Avg. Hourly Earnings: Total Private*	0.1%	0.3%	0.2%	2.6%	2.2%	2.5%
Avg. Weekly Hours: Total Private	34.4	34.5	34.5	34.5	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	-0.2%	0.2%	0.5%	1.9%	2.1%	2.0%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized