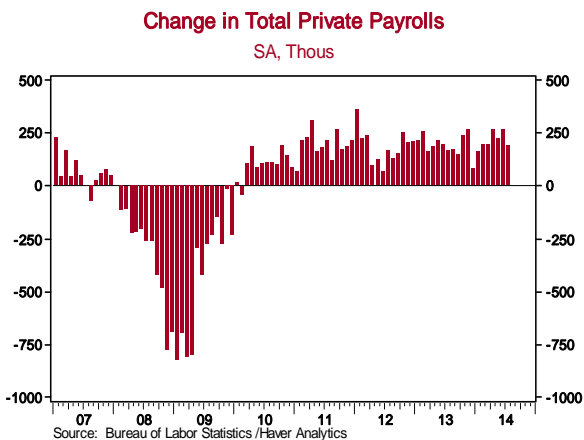


July Employment Report

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- Nonfarm payrolls increased 209,000 in July (224,000 including upward revisions to prior months), just short of the consensus expected 230,000.
- Private sector payrolls increased 198,000 in July. Including revisions to prior months, private payrolls increased 210,000. The largest gains were for professional & business services (+47,000, including temps), manufacturing (+28,000), retail (+27,000), and construction (+22,000). Government payrolls rose 11,000.
- The unemployment rate ticked up to 6.2% in July from 6.1% in June.
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – were unchanged in July but are up 2.0% versus a year ago.

Implications: The Plow Horse Economy is showing Plow Horse improvement in the labor market as well. There was nothing great about this month's report, but nothing awful either. Payrolls grew 209,000 in July, the 6th straight month above 200,000, the first time that's happened since 1997. And although the unemployment rate ticked up to 6.2%, the increase was due to a 131,000 gain in civilian employment, an alternative measure of jobs that includes small business start-ups, while the labor force rose 329,000. As a result, the labor force participation rate ticked up slightly to 62.9%. The aging of the Baby Boomers will keep putting downward pressure on the participation rate but, even so, we expect that rate to remain roughly flat to slightly up in the next year as improvement in job opportunities temporarily offsets population aging. The worst piece of news in today's report was that average hourly earnings were unchanged in July. However, these wages are still up 2% from a year ago while total hours worked are up 2.4%. As a result, total cash earnings are up 4.5% from a year ago, more than enough for consumers to keep increasing spending. Part-time employment was up again, by 52,000 in July, and we're sure pessimistic analysts will again (unduly) highlight this figure. But these data come from the civilian employment survey and are extremely volatile from month to month. So, despite recent gains, part-time employment is down 114,000 in the past year. Given the recent policy statement from the Federal Reserve, Chairman Yellen will probably breathe a small sigh of relief after today's numbers. The report continues to show improvement in the labor market, which the Fed acknowledges. But the small increase in the headline unemployment rate makes that rate a little more consistent with the Fed's concern that the job market still has much further to go before being fully healed. In the past year, nonfarm payrolls are up 214,000 per month while civilian employment is up 172,000 per month. We expect the civilian employment data to accelerate in the year ahead as payrolls continue to show healthy gains.



Employment Report <i>All Data Seasonally Adjusted</i>	Jul-14	Jun-14	May-14	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	6.2	6.1	6.3	6.2	6.4	6.7
Civilian Employment (monthly change in thousands)	131	407	145	228	188	172
Nonfarm Payrolls (monthly change in thousands)	209	298	229	245	244	214
Construction	22	10	9	14	19	18
Manufacturing	28	23	15	22	17	15
Retail Trade	27	41	12	27	24	25
Finance, Insurance and Real Estate	7	17	8	11	9	4
Professional and Business Services	47	73	57	59	63	54
Education and Health Services	17	45	59	40	38	31
Leisure and Hospitality	21	23	45	30	31	31
Government	11	28	1	13	15	8
Avg. Hourly Earnings: Total Private*	0.0%	0.2%	0.2%	2.0%	1.9%	2.0%
Avg. Weekly Hours: Total Private	34.5	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.2%	0.2%	2.4%	3.0%	2.4%

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