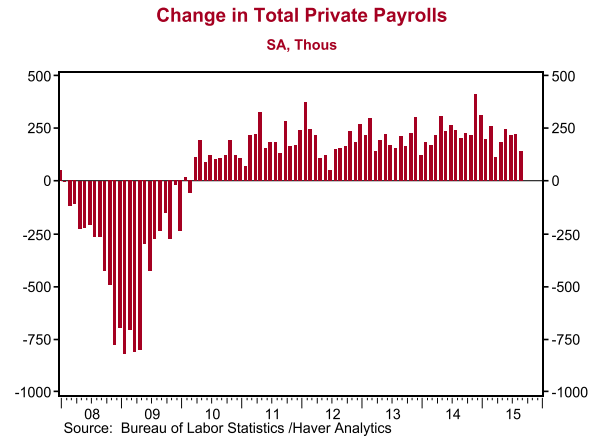


August Employment Report

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Nonfarm payrolls increased 173,000 in August, below the consensus expected 217,000. Including revisions to prior months, nonfarm payrolls increased 217,000.
- Private sector payrolls increased 140,000 in August, while June and July were revised up a combined 5,000. The largest gains were for health & social assistance (+56,000), professional & business services (+33,000, including temps), and restaurants & bars (+26,000). Manufacturing payrolls fell 17,000 while government rose 33,000.
- The unemployment rate fell to 5.1% from 5.3%.
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – rose 0.3% in August and are up 2.2% versus a year ago.

Implications: Even by the loose standards of the monetary doves, the Federal Reserve should start raising interest rates this month. The unemployment rate fell to 5.1% in August, the lowest since early 2008 and right in the middle of the range the Fed believes is the long-term average. Some doves have argued that due to the deep recession the Fed should use loose money to temporarily push the jobless rate below the long-term average. But, with the current stance of policy, the unemployment rate is down a full percentage point from a year ago. It takes time for changes in policy to affect the economy, so even if the Fed starts raising rates today, the momentum from loose policy so far means the jobless rate is already set to dive well below the long-term average. Today's employment report showed continued improvement in the labor market. At 173,000, payroll growth came in a little short of consensus expectations. But the first report for August is usually revised up substantially. Remember August 2011, when the initial report was zero growth in payrolls? Two months later it was revised up to 104,000. This August was the 66th month in a row with growth in private payrolls, the longest streak since at least the late 1930s. Civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 196,000 this August. Meanwhile, the total number of hours worked rose 0.4% in August and is up 2.7% from a year ago. Combined with wages per hour up 2.2% from a year ago, workers' total cash earnings are up 4.9%. No wonder auto sales are booming, hitting the highest level since 2005. Also, notice again the deafening silence from those who used to bemoan the rise in part-time jobs. Part-time employment is down 765,000 in the past year even as total jobs are up. However, all the good news doesn't mean everything is right. The participation rate remained at 62.6% in August, tying the lowest level since 1977. Three key factors are holding down participation: aging Boomers, easily available disability benefits, and overly generous student aid. The bottom line is that the economy in general and labor market in particular would be doing better with a better set of policies, like lower tax rates, less government spending, and lighter regulation. That's why we have a Plow Horse economy rather than a Race Horse economy. It's not the boom of the 1980s or 1990s – not even close – but it continues to move forward.



Employment Report <i>All Data Seasonally Adjusted</i>	Aug-15	Jul-15	Jun-15	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	5.1	5.3	5.3	5.2	5.4	5.5
Civilian Employment (monthly change in thousands)	196	101	-56	80	123	190
Nonfarm Payrolls (monthly change in thousands)	173	245	245	221	205	243
Construction	3	7	1	4	7	18
Manufacturing	-17	12	1	-1	1	10
Retail Trade	11	32	36	27	26	28
Finance, Insurance and Real Estate	19	21	21	20	15	14
Professional and Business Services	33	39	68	47	52	53
Education and Health Services	62	53	61	59	55	51
Leisure and Hospitality	33	30	19	27	25	37
Government	33	21	27	27	15	11
Avg. Hourly Earnings: Total Private*	0.3%	0.2%	0.0%	2.3%	2.5%	2.2%
Avg. Weekly Hours: Total Private	34.6	34.5	34.5	34.5	34.5	34.6
Index of Aggregate Weekly Hours: Total Private*	0.4%	0.2%	0.2%	3.1%	1.8%	2.7%

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