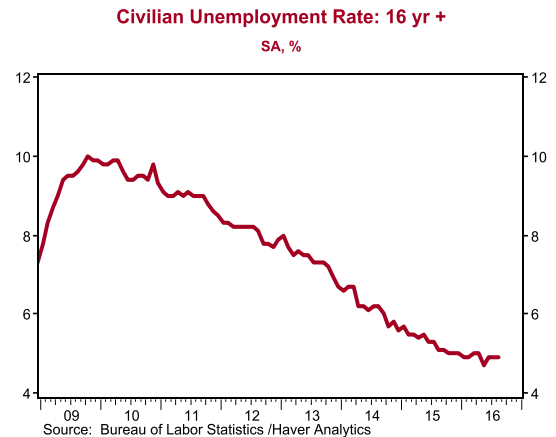
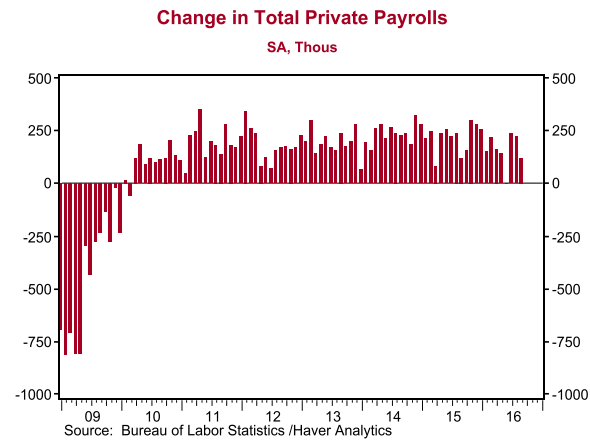


August Employment Report

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- Nonfarm payrolls increased 151,000 in August, missing the consensus expected 180,000. Including revisions to June/July, payrolls rose 150,000.
- Private sector payrolls increased 126,000 in August, although revisions to prior months subtracted 13,000. The largest gains in August were for health care & social assistance (+36,000), restaurants & bars (+34,000), and professional & business services (+22,000, including temps). Manufacturing payrolls fell 14,000 while government rose 25,000.
- The unemployment rate remained at 4.9%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in August and are up 2.4% versus a year ago.

Implications: Today’s report on the job market was soft, but don’t get bent out of shape about it. Payrolls grew a respectable 151,000 in August, but fell short of the consensus expected 180,000. Civilian employment, an alternative measure of jobs that includes small business start-ups, rose a modest 97,000. The total number of hours worked fell 0.2% and average hourly earnings grew a tepid 0.1%. So why aren’t we worried? First, every payroll report is revised twice in the following two months and in the past fifteen years (2001-15), the original estimate for August payrolls has been revised up 80% of the time, with a typical upward boost of 60,000 jobs. Yes, civilian employment rose modestly, but this series is much more volatile than payrolls from month to months, rose 420,000 in July, and is up an average of 214,000 in the past year, even faster than payrolls. We’d like to see total hours worked increase every month, but so far in this expansion it has dropped about three times per year, while rising the other nine months. This is the second drop in the eight months of 2016, so it looks like we’re right on schedule for what’s been a Plow Horse economic recovery. Combining the drop in hours with slow growth in average hourly earnings, total earnings (which exclude fringe benefits and irregular bonuses/commissions) slipped 0.1% in August, but is still up 3.5% in the past year. In an environment where consumer prices are up only about 1% from a year ago, that still leaves room for increases in consumer spending. The unemployment rate held steady at 4.9% in August as the labor force grew 176,000. In the past year the jobless rate has dropped from 5.1% even as the labor force has grown by 2.4 million. At 62.8%, the labor force participation rate is still near the lowest levels since the 1970s. However, it’s been above year ago levels for six of the past seven months, the first time that’s happened so far this expansion. Cyclical improvement in the labor market is finally outweighing headwinds from retiring Boomers, easily available disability benefits, and overly generous student aid. One other key positive in the report was that the share of voluntary job leavers among the unemployed reached 11.3% in August, the highest since 2007. In the past, Fed Chief Yellen has said a higher share of leavers indicates more labor market tightness. Despite this, the odds of the Fed hiking rates in September have clearly dropped. It’s possible the Fed might raise rates this month – we think they should hike in September and December – but the Fed has been scared of its own shadow the past few years, doesn’t like to surprise markets, and so the odds tilt in favor of it kicking the can down the road once again.



Employment Report All Data Seasonally Adjusted	Aug-16	Jul-16	Jun-16	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.9	4.9	4.9	4.9	4.9	4.9
Civilian Employment (monthly change in thousands)	97	420	67	195	90	214
Nonfarm Payrolls (monthly change in thousands)	151	275	271	232	175	204
Construction	-6	11	-6	0	2	17
Manufacturing	-14	6	8	0	-7	-3
Retail Trade	15	11	22	16	15	24
Finance, Insurance and Real Estate	15	19	17	17	17	14
Professional and Business Services	22	80	48	50	45	45
Education and Health Services	39	44	52	45	46	52
Leisure and Hospitality	29	45	53	42	27	35
Government	25	50	33	36	25	14
Avg. Hourly Earnings: Total Private*	0.1%	0.3%	0.1%	2.2%	2.7%	2.4%
Avg. Weekly Hours: Total Private	34.3	34.4	34.4	34.4	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	-0.2%	0.2%	0.2%	0.8%	1.0%	1.1%

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