

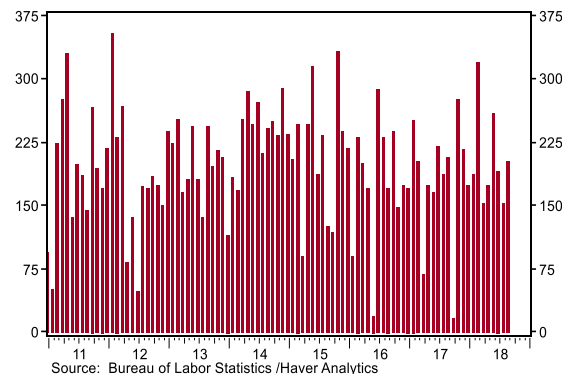
August Employment Report

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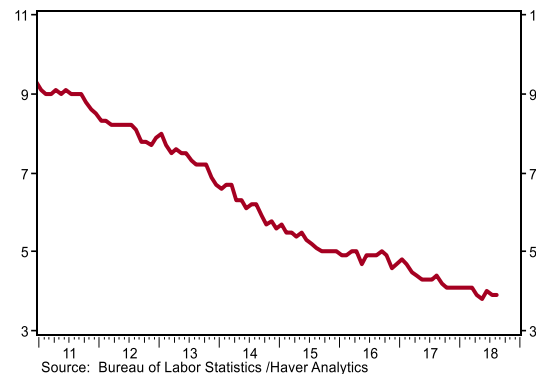
- Nonfarm payrolls rose 201,000 in August, beating the consensus expected 190,000. Including revisions to June/July, nonfarm payrolls increased 151,000.
- Private sector payrolls rose 204,000 in August but revisions to prior months subtracted 59,000. The largest increases in August were for professional & business services (+53,000, including temps) and education & health (+53,000). Manufacturing and government both declined 3,000.
- The unemployment rate remained at 3.9%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.4% in August and are up 2.9% versus a year ago.

Implications: More jobs and higher wages show the Fed has its work cut out for it. Nonfarm payrolls rose 201,000 in August, beating the consensus expected 190,000 and breaking a long streak of August payrolls falling short of consensus expectations. Payrolls are up 194,000 per month in the past year and we expect similar robust job gains in the year ahead. Civilian employment, an alternative measure of jobs that includes small-business start-ups, fell 423,000 in August while the labor force fell 469,000. However, these two figures are very volatile from month to month and are up 1.8 million and 0.9 million, respectively, in the past year. Expect a rebound in September. Although the unemployment rate remained at 3.9% in August, we expect the jobless rate to finish the year around 3.6% and end 2019 at 3.2%, which would be the lowest since the early 1950s. In the meantime, the U-6 unemployment rate, which includes discouraged and marginally-attached workers, as well as those working part-time who say they want full-time jobs, fell to 7.4% in August, the lowest level since 2001. The best news in today's report was that workers are earning higher wages. Average hourly earnings – which exclude extra earnings from irregular bonuses and commissions, like those paid out after the tax cut was passed – rose 0.4% in August and are up 2.9% in the past year, the largest gain so far in the economic expansion. Meanwhile, total hours worked are up 2.1% in the past year. As a result, total cash earnings — are up 5.1% in the past year, more than enough to keep pushing consumer spending higher. Some analysts may bemoan that the participation rate fell to 62.7% in August, but that's right in the middle of the range it's been in since 2014 (62.3% and 63.1%). Right now, the futures market in federal funds suggests two more rate hikes this year and either one or two hikes in 2019. We think we'll get two this year but four in 2019. Today's report, particularly the data on wages, suggests the labor market is already tight and we think it will only get tighter, which means the Fed will keep gradually raising rates through at least 2019.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Aug-18	Jul-18	Jun-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	3.9	3.9	4.0	3.9	3.9	4.0
Civilian Employment (monthly change in thousands)	-423	389	102	23	55	147
Nonfarm Payrolls (monthly change in thousands)	201	147	208	185	192	194
Construction	23	18	8	16	15	25
Manufacturing	-3	18	21	12	18	21
Retail Trade	-6	4	-42	-15	-1	5
Finance, Insurance and Real Estate	11	2	12	8	8	9
Professional and Business Services	53	37	47	46	48	43
Education and Health Services	53	41	67	54	45	37
Leisure and Hospitality	17	32	28	26	21	21
Government	-3	-6	16	2	3	0
Avg. Hourly Earnings: Total Private*	0.4%	0.3%	0.2%	3.3%	3.2%	2.9%
Avg. Weekly Hours: Total Private	34.5	34.5	34.6	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.2%	-0.2%	0.5%	1.8%	1.8%	2.1%

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