

US jobs data won't trigger September rate hike – jobs report review

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We are not overly surprised by the soft August job numbers. If the pattern seen over the recent years continues, it is likely that today's numbers will be revised upwards. Still, softish job growth and tame wage growth in August plus yesterday's surprising news that the US manufacturing sector is contracting again reinforce our view that the Fed will wait until December before hiking rates again.

US employers added 151k jobs in August after the surprisingly strong 275k rise in July and June's increase of 271k. Still, June, July, and August payrolls imply a **solid rebound from the weakness in April and May**, which might have been payback for an unusually warm winter and hence nothing more than a blip. Payroll growth has averaged 232k/175k/204k over the past 3m/6m/12m.

With a 1k net downward revision to June and July, the net payrolls increase was 150k, somewhat weaker **than the 180k consensus forecast**. Our estimate was 175k.

As indicated in our [jobs report preview](#), **we are not overly surprised by the soft August job numbers**. Today's numbers are simply the first estimate made by the Bureau of Labor Statistics, and they will be revised as more information comes to light. For reasons that remain largely mysterious, these revisions have tended to be highly cyclical, underestimating job losses during the recession, and then systematically underestimating job gains during the recovery. During the current economic recovery, the initial estimate of nonfarm payrolls has understated monthly employment growth by an average of 23k jobs. **If this pattern continues, it is likely that today's numbers will be revised upwards. Indeed, over the past five years the initial estimate for job growth in August has been revised upwards by an average of 71k jobs.**

The **unemployment rate was unchanged 4.9% in August**, two tenth above its cyclical low. The details were softish as employment according to the household survey rose just 97k in August after a strong 420k gain in July, while the labour force increased by 176k. The **labour force participation** rate was unchanged 62.8% in August, well above the multi-decade low of 62.4% from September last year.

The unemployment rate has experienced an extended period of stability, holding in a range of 4.7-5.1% over the past year. The stickiness of the rate just below 5% could be **a signal that the economy is closing in on full employment**. The Fed's estimate of the NAIRU – the level consistent with full employment – is 4.8%.

The broader U-6 underemployment rate was unchanged 9.7% in August, just one tenth above its cyclical low.

Following a solid 0.3% gain in July **average hourly earnings rose a modest 0.1% in August**. As a result, the year-over-year growth rate slipped to 2.4% from July's 2.6%, which was matching the strongest gain in seven years. **However, we ascribe most of the weakness in August to calendar effects**. In recent years there has tended to be an inverse relationship between changes in the number of working days in a given month and average hourly earnings. Thus the fact that August included three more working days than July argues for a slowdown in earnings.

Also on the weaker side, the **average work week decreased by 6 minutes to 34.3 hours** in July, the lowest since 2014 and the first drop in six months.

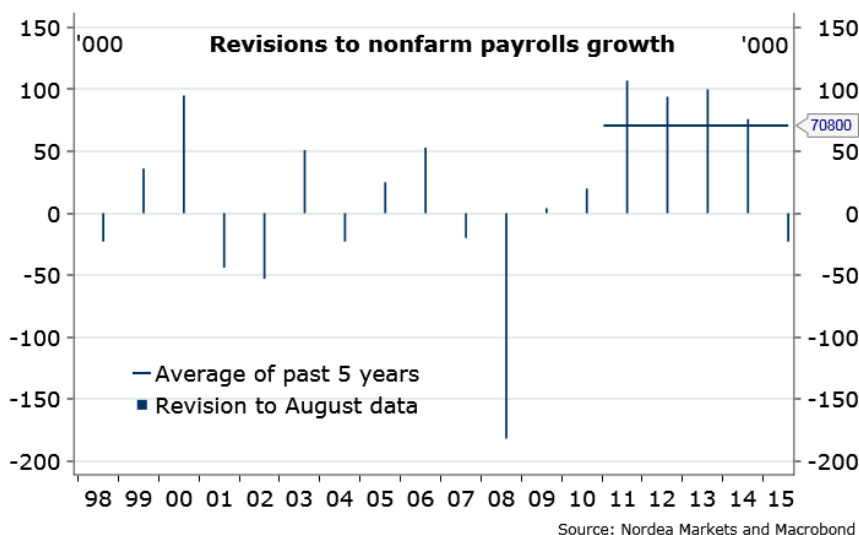
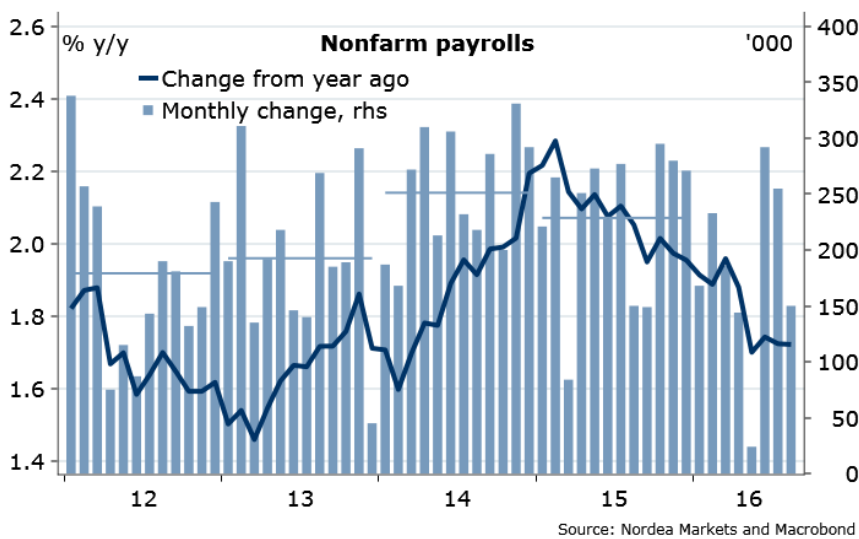
Implications for the Fed

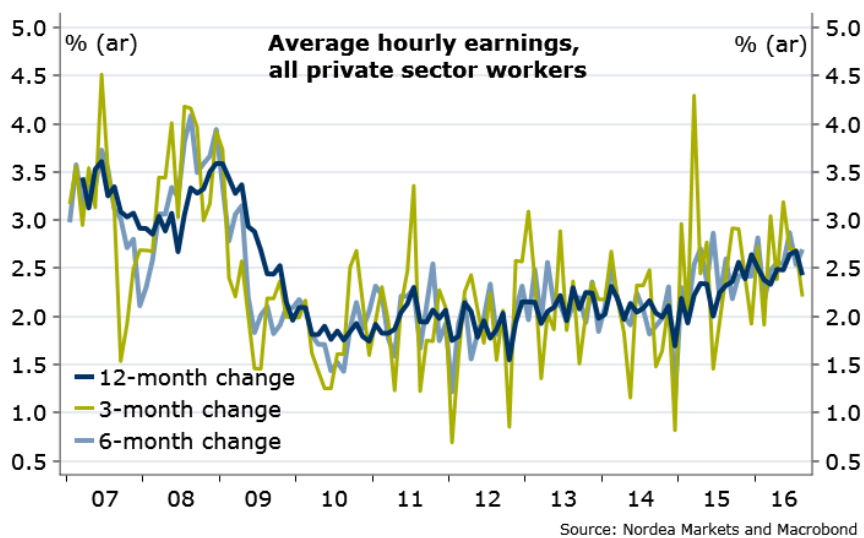
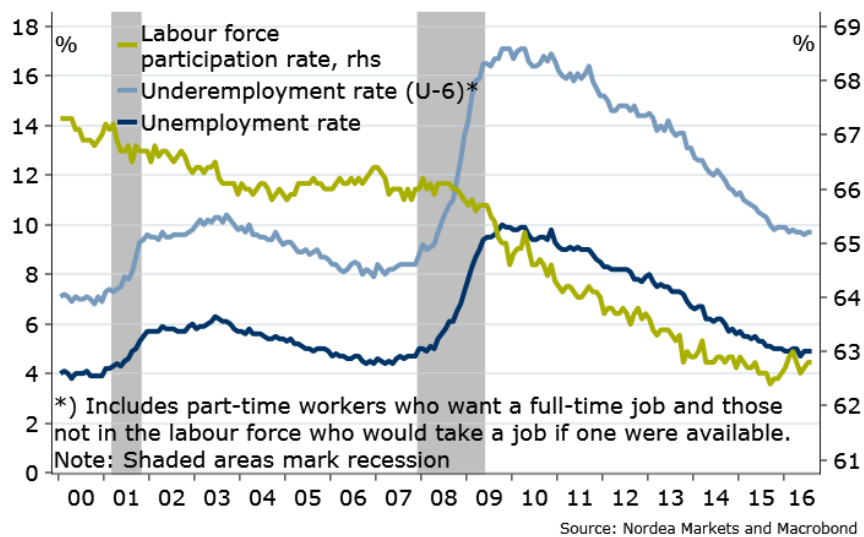
August's softish job growth and slowdown in average hourly earnings growth will allow the Fed to continue to look for more clear evidence of stronger GDP growth and **wait until December before hiking rates again**.

[Fed Chair Yellen's more upbeat assessment of the economy in Jackson Hole](#) - and especially Vice Chair Fischer's comments that Yellen's speech was consistent with two hikes this year - certainly **left the door open for a rate hike already at the 20-21 September FOMC meeting**. However, yesterday's surprising news that the [US manufacturing sector is contracting again](#), according to the ISM survey, might also have reduced the Fed's

confidence that growth is set to rebound in the second half of the year.

Moreover, with markets currently pricing in a probability of just 24% of a September hike we don't think the Fed would feel comfortable moving already later this month, unless market expectations change. **Currently we see a probability of around 30% for a Fed rate hike already in September, down from 40% before today's job numbers.**





Labour market

	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Payrolls growth, k	144	24	271	275	151
Government	-3	25	33	50	25
Private	147	-1	238	225	126
Manufacturing	5	-17	8	6	-14
Mining and logging	-11	-10	-7	-6	-4
Construction	-6	-18	-6	11	-6
Transportation & utilities	16	-4	19	28	34
Wholesale trade	6	-6	1	1	4
Retail trade	-2	0	22	11	15
Transportation & warehousing	12	5	-7	15	15
Utilities	0	-2	2	1	-1
Information	0	-41	41	-4	4
Financial activities	21	16	17	19	15
Professional & business services	57	32	48	80	22
Temporary help	10	-15	16	13	-3
Education & health services	47	46	52	44	39
Leisure & hospitality	15	3	53	45	29
Other services	3	-8	13	2	7
Aggregate hours worked, % m/m	0.2	0.0	0.2	0.2	-0.2
Average workweek, hours	34.4	34.4	34.4	34.4	34.3
Average hourly earnings, % m/m	0.3	0.2	0.1	0.3	0.1
Average hourly earnings, % y/y	2.5	2.5	2.6	2.7	2.4
Private payrolls, 1M diffusion index	54.0	46.9	59.0	62.4	58.0
Household survey:					
Employment growth, k	-316	26	67	420	97
Unemployment rate (U-3), %	5.0	4.7	4.9	4.9	4.9
Short-term unemployment, %	3.7	3.5	3.7	3.6	3.6
Long-term unemployment, %	1.3	1.2	1.2	1.3	1.3
Underemployment rate (U-6) ¹ , %	9.7	9.7	9.6	9.7	9.7
Involuntary part-time empl. rate, %	3.8	4.1	3.7	3.7	3.8
Labour force growth, k	-362	-458	414	407	176
Participation rate, %	62.8	62.6	62.7	62.8	62.8
Marginally attached workers ² , %	1.1	1.1	1.2	1.2	1.0
Discouraged workers, %	0.3	0.3	0.3	0.3	0.4

1) Includes involuntary part-time workers and marginally attached workers to the labour force, ie. those not in the labour force who would take a job if one were available. More precisely, persons marginally attached to the labour force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months.

2) Persons marginally attached to the labour force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have stopped looking for job because they do not believe jobs are available for them.

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