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Solid July jobs report

A healthy report does not dissuade the Fed from another rate cut.

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Bottom line

The July labor market was relatively solid across the board, with an in-line increase of 164,000 non-farm payroll jobs, although May and June were downwardly revised by a combined 41,000 jobs.

Additionally, year-over-year wage growth ticked up by 3.2%. The household survey enjoyed another strong month with a gain of 283,000 jobs. The participation rate rose to 63.0%. The underemployment rate fell to a new 19-year low at 7.0%. And manufacturing payrolls posted their largest gain in six months by adding 16,000 workers.

Aside from the negative revisions to both nonfarm and private payrolls in May and June, however, hours worked slipped in July and the official unemployment rate held steady at 3.7%. But we actually view that flat performance as a victory, given the surge in the civilian labor force of 370,000 workers last month, the largest month-over-month increase since last December.

In our view, today's healthy report does not dissuade the Federal Reserve from executing another quarter-point interest rate cut at its next policy-setting meeting on

Sept. 18, 2019 in the wake of their first rate cut in more than a decade this past Wednesday. At a minimum, yesterday's escalation by President Trump of the ongoing trade and tariff skirmish with China increases economic uncertainty. In addition, the July Institute of Supply Management (ISM) manufacturing report hit a new three-year low yesterday at 51.2, and auto sales for July were surprisingly weaker than expected. Moreover, the August jobs report, which will be released on Sept. 6, 2019 is typically the wonkiest report of the year, due to a number of seasonal crosscurrents.

Relatively solid jobs report With an in-line gain of 164,000 jobs, compared with a consensus estimate of only 165,000 and Federated's more conservative estimate of only 157,000, the July jobs report was solid. May was revised down by 10,000 jobs to a final gain of 62,000, and June was revised down sharply by 31,000 jobs to a gain of 193,000 jobs. Government hiring in July rose by 16,000 jobs, led by a solid gain of 14,000 local hires, but June was revised down by 19,000 jobs to a gain of 14,000. As a result, private payrolls rose by 148,000 in July, below consensus estimates of 165,000.

ADP rebound and solid weekly claims ADP's private-sector hiring surprised to the upside in July, adding 156,000 jobs compared with consensus expectations of 150,000 and an upwardly revised but nonetheless weak June gain of only 112,000 jobs. The survey week for initial weekly unemployment claims, which is a critically important leading employment indicator, rose to 216,000 for the week ended July 13, 12% higher than the 49-year cycle low (matching September 1969) of 193,000 for the April survey week that ended April 13.

Household survey strong again The admittedly volatile household survey (a leading employment indicator) enjoyed another good month in July, adding 283,000 jobs, on top of 247,000 jobs gained in June, compared with a gain of 113,000 jobs in May and losses of 103,000 jobs in April and 201,000 jobs in March. This bodes well for August.

Manufacturing strong, construction soft The manufacturing sector continued its rebound into July, adding a six-month high of 16,000 jobs (versus consensus estimates for a modest gain of only 5,000 jobs), compared with gains of 12,000 jobs in June and

2,000 in May. The construction industry added a disappointing 4,000 jobs in July, down sharply from a strong gain of 18,000 jobs in June, compared with only 1,000 jobs in May.

Participation rises, labor impairment falls & unemployment rate flat The labor force participation rate ticked up for the third consecutive month to 63.0% in July, but that's still slightly below a five-year high of 63.2% in February. The official rate of unemployment (U-3) held steady at 3.7% in July, up slightly from May's 49-year low of 3.6%, and the labor impairment rate (U-6) fell to a new 19-year low at 7.0% in July.

Wages grow but hours worked slip Average hourly earnings rose by a modest 0.3% month-over-month in July for the third consecutive month, although that's slightly below February's robust 0.4% gain. The year-over-year gain ticked up to 3.2%, although that's still down from February's 3.4% increase, which was a 10-year high. The average private work week for all employees surprisingly slipped a tick to 34.3 hours worked in July, its weakest level in nearly two years. A decline of 0.1 hour worked theoretically subtracts 350,000 jobs from the economy.

Retail hiring remains weak Despite retail sales strength over the past four months through June, the sector cut jobs for the sixth consecutive month, losing 4,000 jobs in July, compared with job losses of 7,000 in June, 12,000 in May, 15,000 in each of April and March, and 14,000 in February.

Temps modestly higher Temporary help, which is a leading economic indicator, added a modest 2,000 jobs in July, after losing 1,000 jobs in June and 2,000 in May.

TAGS

MARKETS/ECONOMY   EQUITY

DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

The Institute of Supply Management (ISM) manufacturing index is a composite, forward-looking derived from a monthly survey of U.S. businesses.

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