Federated

Quirky August jobs report strikes again

Expect the soft August employment figures to be revised upward.

Published 09-06-2019

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BOTTOM LINE

August is historically the wonkiest month of the year for the labor market, a trend that continued today with a vengeance. On the surface, the report was disappointing, with an increase of only 130,000 nonfarm payroll jobs—compared with consensus expectations of 160,000—along with a downward revision to June and July of a combined 20,000 jobs. That collective miss of 50,000 jobs is even larger when compared to Federated's more optimistic forecast of 186,000.

For the past decade we've warned investors that August is the statistically quirkiest month for employment figures. Over that period, the flash report has missed consensus expectations to the downside by an average of 40,000 jobs, only to be revised higher by an average of 65,000 over the next two months. This seasonal noise likely is due to summer vacations, school holidays and manufacturing furloughs to retool plants and liquidate inventory. So if history holds, which we believe it will, the Labor Department's final August revision on Nov. 1 could put the payroll figure near our above-consensus estimate.

Why are we so confident? The private ADP payroll report and initial weekly claims in August were very strong. Wages grew at a 4.2% annualized pace over the past three months, hours worked rose, the participation rate increased to a 6-year high and household employment grew at its strongest monthly pace since February 2018.

However, the ISM manufacturing index released on Tuesday suffered a horrific miss. Its August reading hit a 3-year low of 49.1, which is in economic-contraction territory. In conjunction with today's nominal disappointment in the August labor report, this should keep the Federal Reserve engaged at its next policy-setting meeting on Sept 18. In our view, it will execute another quarter-point interest-rate cut later this month, with perhaps another cut or two at their upcoming meetings. But with the increased economic uncertainty associated with President Trump's ongoing trade and tariff skirmish with China, we think the Fed could very well decide to front-load the September cut.

Soft jobs report in August The Labor Dept. reported a weaker-than-expected gain of only 130,000 jobs, compared with a consensus estimate of 160,000 and Federated's more constructive estimate of 186,000. June's tally was revised down by 15,000 to a final gain of 178,000, and July's count was revised down by 5,000 to a gain of 159,000. Government hiring in August rose by 34,000, led by gain of 28,000 federal employees (mostly the 25,000 temporary census workers). States added 6,000 workers, and local hiring was unchanged. As a result, private payrolls rose by only 96,000 in August, well below consensus estimates of 150,000.

ADP and weekly claims solid ADP's private-sector hiring rose to a stronger-than-expected 4-month high in August of 195,000 jobs, compared with consensus expectations of 148,000, led by a gain of 66,000 small-company hires versus only 1,000 in July. The survey week for initial weekly unemployment claims, a critically important leading employment indicator, slipped to 211,000 for the week ended Aug. 17, only marginally higher than the 49-year cycle low (matching September 1969) of 193,000 for the April survey week that ended April 13.

Household survey very strong The admittedly volatile household survey (a leading employment indicator) added 590,000 jobs in August—its highest level since February 2018—compared with 283,000 in July, 247,000 in June, 113,000 in May and losses of 103,000 in April and 201,000 in March.

Construction rebounds, manufacturing soft The construction industry added 14,000 jobs in August, up from a loss of 2,000 in July, but down from a strong gain of 19,000 in June. The manufacturing sector suffered a weak gain of only 4,000 in August, while July was revised sharply lower from a 6-month high of 16,000 added to a gain of only 4,000, compared with a gain of 10,000 in June.

Participation and labor impairment rates rise; unemployment rate flat The labor force participation rate ticked up for the fourth consecutive month to 63.2% in August, a 6-year high. The unemployment rate (U-3) held steady at 3.7%, up slightly from May's 49-year low of 3.6%. The labor impairment rate (U-6) rose to 7.2% due to the surge of 571,000 people in the civilian labor force, up from a 19-year low at 7% in July.

Wages and hours worked strong Average hourly earnings leapt a stronger-than-expected 0.4% month-over-month in August, matching a 5-year high. The year-over-year gain rose a better-than-expected 3.2%, below February's 10-year high of 3.4%. But over the past three months, wages have risen at a robust annual pace of 4.2%. The average private workweek for all employees ticked up to 34.4 hours worked in August. An increase of 0.1 hour worked theoretically adds 350,000 jobs to the economy.

Retail hiring remains weak Despite retail sales strength over the past five months through July, the sector cut jobs for the seventh consecutive month, losing 11,000 in August, compared with 5,000 in July, 12,000 in each of June and May, 15,000 in each of April and March, and 14,000 in February.

Temps surge Temporary help (a leading economic indicator) added 15,000 jobs in August, compared with losses of 8,000 in July, 1,000 in June and 2,000 in May. But August's strength may have been related to the upcoming decennial census.

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DISCLOSURES

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

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