

## US Watch

## July employment: A mixed report

## Key takeaways

- The July employment report was mixed. Job growth cooled, but wage inflation remains elevated and the u-rate fell.
- Employers may be cutting hours before jobs as hours worked fell in July and are little changed over the last six months.
- The data left our 2Q GDP tracking estimate unchanged at 2.4% q/q saar.

## Cooler payrolls, firm wages, low unemployment

Nonfarm payrolls came in below expectations for a second consecutive month. In July, nonfarm payroll employment rose by 187k, modestly below expectations for a 200k increase. There were also downward revisions of 49k to the previous two months resulting in the three-month moving average slowing from 227k in April to 218k in July. Employment growth has shown increasing signs of cooling off this year, however, 200k+ jobs per month is still strong by historical standards and enough to more than offset the natural increase in the labor force.

Within payrolls, job growth was narrowly driven by service providing jobs (+154k, see: Table 3 for more details). More specifically private education and health services added 100k jobs of which 87k were in health care and social assistance. Employment in the sector had initially lagged the recovery of other sectors, but it is now 3.3% above its pre-pandemic level. The recent strength of employment gains in the sector reflects a normalization of demand for medical care after COVID related disruptions and an aging population, in our view.

Outside of education and health services, employment was more mixed. Four super sectors-- manufacturing, transportation and warehousing, information, and professional and business services--fell on the month. The decline in professional and business services was driven by a 22k decline in temporary help services employment, which is often viewed as a leading indicator of recessions. However, recent declines in the sector may reflect increased demand for full time employees.

Meanwhile, employment rose in the remaining nine sectors, including the education and health service sectors. That said, employment growth in leisure and hospitality has shown a marked deceleration over the last four months, which in our view suggests that hiring has "caught up" after lagging other sectors. That's not to say further gains are unlikely, only that the pace has downshifted.

*(Continued on next page)*

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FOMC: Federal Open Market  
Committee

k: thousand

saar: seasonally adjusted annual rate

AHE: Average Hourly Earnings

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While employment growth moderated and is increasingly narrowly driven, other establishment data were somewhat mixed. On the one hand, average hourly earnings rose by 0.4% m/m for all employees and production and nonsupervisory workers (Table 5). As a result, average hourly earnings are up 4.9% annualized over the last three months for all private employees and 5.0% for production and nonsupervisory employees. This leaves wage inflation above levels consistent with the Fed's two-percent inflation target.

On the other hand, average weekly hours ticked down a tenth to 34.3, reversing the prior month's increase. As a result, the aggregate hours worked index fell by 0.2% m/m for all workers; however, it increased by 0.3% m/m for production and nonsupervisory workers. Therefore, the signals are a bit crossed this month. Taking a step back, both show a significant slowdown in growth over the last six months as we continue to get evidence that the intensive margin for cooling in the labor market is hours worked, not employment.

Turning to the household survey, it was indisputably strong. Household employment rose by 268k and the payroll concept adjusted employment measure increased by 566k. Over the last six months, payroll concept adjusted household employment has increased by 1,749k exceeding the 1,335k increase in nonfarm payrolls. When it comes to measuring employment, we put more stock in the payroll, but the strength of the household data is worth monitoring.

The participation rate, meanwhile, was unchanged at 62.6% as the labor force rose by 152k on the month. The participation rate has been unchanged for five consecutive months as most of the gains to participation rate are likely behind us. Drilling down, the prime age participation rate declined a tenth to 83.4% owing to a three-tenth decline in the female participation rate, which remains above its pre-pandemic peak.

Given the strong increase in household employment and modest growth in the labor force, the unemployment rate fell to 3.5% from 3.6%, remaining at historically low levels.

### **Bottom line: a mixed report**

The July jobs report was mixed. First, job growth is certainly moderating but remains elevated by historical standards. Second, wage growth also remains at levels that are inconsistent with the Fed's two-percent target, in our view. Third, the unemployment rate is near-to-historical lows. In short, the labor market may be cooling but it is certainly not cold. In terms of implications for our monetary policy outlook, we would say this report is mixed for our outlook for a September hike.

### **GDP implications:**

In the July employment report, payrolls of residential remodelers in June came in slightly stronger than our expectations. This increased our 2Q residential tracking estimate. Also, federal government payrolls in June were revised higher while state government payrolls came in lower. This left our government tracking estimate unchanged. Overall, after rounding this left our 2Q US GDP tracking estimate unchanged at 2.4% q/q saar.

### **Market reaction**

The knee jerk response to the mixed report showed limited change in market pricing for an additional hike but a modest re-pricing higher of late '24 expiries. This is consistent with payrolls cooling suggesting the Fed is near the end of a hiking cycle but still strong AHE implying may be longer until Fed cuts. FOMC OIS is reflecting 10bps of hikes through the November meeting. We think the bar at this stage is higher for the market to price additional hikes vs fade the cuts. After the initial price response, rates rallied across the curve, reflecting buying following this week's 20-25bps move higher in long-end rates.

**Table 1: Summary of jobs data (most recent 6 months)**

Nonfarm payrolls have increased by an average of 223k over the last six months

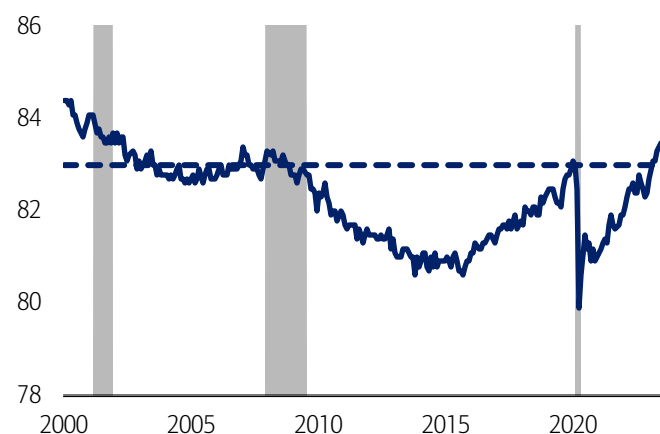
	Jul	Jun	May	Apr	Mar	Feb
<b>Establishment survey</b>						
Nonfarm payrolls	187k	185k	281k	217k	217k	248k
Private payrolls	172k	128k	255k	179k	157k	193k
Construction	19k	26k	25k	11k	-9k	14k
Manufacturing	-2k	6k	-4k	9k	-12k	3k
Government	15k	57k	26k	38k	60k	55k
Average weekly hours	34.3	34.4	34.3	34.4	34.4	34.5
Avg hourly earnings (mom %)	0.4%	0.4%	0.3%	0.4%	0.3%	0.3%
<b>Household survey</b>						
Unemployment rate	3.5%	3.6%	3.7%	3.4%	3.5%	3.6%
Participation rate	62.6%	62.6%	62.6%	62.6%	62.6%	62.5%
Labor force	152k	133k	130k	-43k	480k	419k
Household jobs	268k	273k	-310k	139k	577k	177k
Employment to pop. ratio	60.4%	60.3%	60.3%	60.4%	60.4%	60.2%

Source: Bureau of Labor Statistics

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**Exhibit 1: Prime age labor force participation rate (%; dotted line = December 2019-February 2020 average)**

The prime age participation rate is now above its pre-pandemic level



Source: Bureau of Labor Statistics

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**Table 3: Monthly payroll growth heatmap (m/m change, 000s sa)**

Job growth remains elevated by historic standards and is only slowing moderately

Jul-23 nfp share	Component	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22
100%	<b>Total nonfarm</b>	<b>187</b>	<b>185</b>	<b>281</b>	<b>217</b>	<b>217</b>	<b>248</b>	<b>472</b>	<b>239</b>	<b>290</b>	<b>324</b>	<b>350</b>	<b>352</b>
85%	<b>Total private</b>	<b>172</b>	<b>128</b>	<b>255</b>	<b>179</b>	<b>157</b>	<b>193</b>	<b>353</b>	<b>232</b>	<b>228</b>	<b>299</b>	<b>344</b>	<b>306</b>
14%	Goods-producing	18	31	24	25	-19	18	41	36	41	57	44	37
0%	Mining and logging	1	-1	3	5	2	1	4	4	8	3	2	-2
5%	Construction	19	26	25	11	-9	14	26	26	19	17	16	8
8%	Manufacturing	-2	6	-4	9	-12	3	11	6	14	37	26	31
5%	Durable goods	8	16	3	13	-5	1	0	23	14	27	14	31
3%	Nondurable goods	-10	-10	-7	-4	-7	2	11	-17	0	10	12	0
72%	Service-providing	154	97	231	154	176	175	312	196	187	242	300	269
18%	Trade, transportation, and utilities	18	-31	48	-17	3	36	61	36	-84	31	7	60
4%	Wholesale trade	18	-8	8	-2	4	7	9	10	0	16	8	13
10%	Retail trade	9	-14	21	-2	-19	48	22	27	-46	-6	-11	37
4%	Transportation and warehousing	-8	-9	19	-15	16	-18	32	0	-37	20	10	9
0%	Utilities	0	1	1	2	2	-1	-2	-1	-1	1	0	1
2%	Information	-12	-5	-4	3	3	-8	-23	-9	13	3	3	8
6%	Financial activities	19	9	13	27	-5	0	-1	4	11	18	2	9
15%	Professional and business services	-8	23	45	48	45	21	44	23	0	36	48	48
16%	Education and health services	100	71	88	77	70	64	111	71	95	85	80	92
11%	Leisure and hospitality	17	19	28	11	46	57	99	58	123	61	139	48
4%	Other services	20	11	13	5	14	5	21	13	29	8	21	4

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Table 4: Monthly average hourly earnings heatmap (% m/m)**

Wage growth continues to run at a stronger pace than the start of the year

Jul-23 nfp share	Component	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22
85%	<b>Total private</b>	<b>0.42%</b>	<b>0.45%</b>	<b>0.33%</b>	<b>0.42%</b>	<b>0.27%</b>	<b>0.27%</b>	<b>0.30%</b>	<b>0.37%</b>	<b>0.43%</b>	<b>0.40%</b>	<b>0.31%</b>	<b>0.31%</b>
14%	Goods-producing	0.65%	0.59%	0.45%	0.48%	0.54%	0.21%	0.51%	0.33%	0.43%	0.46%	0.37%	0.18%
0%	Mining and logging	0.37%	-0.24%	0.79%	1.23%	0.46%	0.38%	0.90%	0.52%	0.58%	-0.19%	0.25%	-0.36%
5%	Construction	0.85%	0.28%	0.42%	0.33%	0.42%	0.42%	0.25%	0.48%	0.51%	0.57%	0.40%	0.37%
8%	Manufacturing	0.52%	0.84%	0.41%	0.50%	0.63%	0.03%	0.64%	0.22%	0.35%	0.42%	0.32%	0.13%
5%	Durable goods	0.50%	0.62%	0.54%	0.42%	0.66%	0.06%	0.67%	-0.06%	0.21%	0.46%	0.37%	0.25%
3%	Nondurable goods	0.57%	1.19%	0.14%	0.62%	0.58%	-0.03%	0.59%	0.63%	0.60%	0.39%	0.21%	-0.11%
72%	Service-providing	0.36%	0.39%	0.33%	0.39%	0.24%	0.27%	0.24%	0.37%	0.43%	0.40%	0.28%	0.34%
18%	Trade, transportation, and utilities	0.17%	0.42%	0.10%	0.59%	0.17%	0.81%	0.53%	0.21%	0.46%	0.47%	0.36%	0.29%
4%	Wholesale trade	-0.05%	0.71%	-0.08%	0.55%	0.11%	0.36%	1.03%	0.53%	0.34%	0.82%	0.09%	0.20%
10%	Retail trade	0.25%	0.21%	0.00%	0.29%	-0.04%	1.06%	0.30%	-0.04%	1.08%	0.43%	0.26%	0.17%
4%	Transportation and warehousing	0.24%	0.35%	0.31%	0.87%	0.42%	0.78%	0.35%	0.21%	-0.11%	0.07%	0.72%	0.54%
0%	Utilities	0.18%	0.56%	0.49%	0.30%	0.76%	0.20%	0.78%	0.62%	-0.10%	0.46%	1.14%	-0.21%
2%	Information	0.42%	-0.19%	1.05%	-0.89%	0.31%	0.34%	0.02%	0.59%	-0.42%	-0.15%	0.80%	1.85%
6%	Financial activities	0.42%	0.74%	0.75%	-0.07%	0.38%	0.09%	0.21%	0.69%	0.17%	-0.07%	0.72%	0.29%
15%	Professional and business services	0.49%	0.45%	0.22%	0.48%	0.45%	0.23%	0.38%	0.33%	0.54%	0.49%	0.21%	0.23%
16%	Education and health services	0.27%	0.34%	0.18%	0.31%	0.06%	-0.21%	0.37%	0.34%	0.53%	0.59%	-0.06%	0.12%
11%	Leisure and hospitality	0.33%	0.47%	0.48%	0.53%	0.67%	0.05%	0.00%	0.82%	0.83%	0.59%	0.15%	0.55%
4%	Other services	-0.13%	0.17%	0.41%	0.85%	-0.81%	0.17%	0.44%	-0.14%	0.82%	0.17%	0.73%	0.17%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Table 5: Annual average hourly earnings heatmap (% y/y)**

Annual wage growth rose by 4.4% y/y in July

Jul-23 nfp share	Component	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22
85%	<b>Total private</b>	<b>4.36%</b>	<b>4.41%</b>	<b>4.34%</b>	<b>4.38%</b>	<b>4.30%</b>	<b>4.68%</b>	<b>4.39%</b>	<b>4.77%</b>	<b>4.99%</b>	<b>4.88%</b>	<b>5.07%</b>	<b>5.36%</b>
14%	Goods-producing	5.32%	5.09%	4.70%	4.59%	4.65%	4.58%	4.33%	4.51%	4.66%	4.48%	4.44%	4.59%
0%	Mining and logging	4.79%	5.62%	6.91%	7.12%	4.78%	4.39%	4.67%	3.36%	3.00%	3.13%	3.68%	3.28%
5%	Construction	5.43%	4.87%	5.01%	5.18%	5.42%	5.50%	5.31%	5.83%	5.92%	5.57%	5.48%	5.53%
8%	Manufacturing	5.13%	5.05%	4.24%	3.92%	4.05%	3.94%	3.56%	3.72%	3.90%	3.78%	3.83%	3.98%
5%	Durable goods	4.79%	4.56%	3.88%	3.55%	3.82%	3.85%	3.11%	3.45%	3.84%	4.08%	3.93%	4.05%
3%	Nondurable goods	5.49%	5.71%	4.73%	4.55%	4.35%	3.89%	4.34%	4.07%	3.94%	3.18%	3.45%	3.76%
72%	Service-providing	4.12%	4.26%	4.28%	4.33%	4.25%	4.69%	4.44%	4.85%	5.07%	4.99%	5.21%	5.57%
18%	Trade, transportation, and utilities	4.69%	4.85%	4.57%	4.99%	4.45%	4.95%	4.49%	4.63%	4.92%	4.86%	4.81%	5.06%
4%	Wholesale trade	4.69%	5.20%	5.27%	5.11%	4.75%	4.93%	5.07%	4.09%	4.11%	4.04%	3.64%	4.01%
10%	Retail trade	4.04%	4.28%	4.43%	4.66%	3.98%	4.85%	4.26%	4.45%	4.97%	4.17%	4.38%	5.01%
4%	Transportation and warehousing	4.86%	4.87%	3.50%	4.72%	4.23%	4.09%	3.78%	3.64%	4.00%	5.51%	5.67%	5.20%
0%	Utilities	5.30%	5.07%	4.99%	5.75%	5.14%	5.77%	5.19%	4.98%	5.97%	6.43%	5.75%	4.91%
2%	Information	3.76%	3.60%	4.56%	4.25%	5.67%	5.18%	5.78%	5.92%	6.22%	6.55%	7.69%	6.84%
6%	Financial activities	4.39%	4.41%	4.42%	3.77%	4.02%	4.42%	3.99%	4.15%	3.62%	3.72%	4.55%	4.06%
15%	Professional and business services	4.58%	4.63%	4.30%	4.23%	4.44%	4.80%	4.64%	4.94%	5.21%	5.01%	5.23%	5.56%
16%	Education and health services	2.87%	3.33%	3.60%	3.90%	3.88%	4.28%	4.14%	4.76%	5.32%	5.11%	5.07%	6.39%
11%	Leisure and hospitality	5.60%	5.78%	5.81%	5.89%	5.92%	6.67%	7.00%	6.56%	6.46%	6.40%	7.57%	8.10%
4%	Other services	2.88%	3.70%	4.54%	4.30%	3.35%	4.27%	3.73%	3.45%	4.14%	3.77%	4.15%	3.96%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Exhibit 3: Labor market dashboard**

Employment data show a broad-based recovery across demographics

Indicator	Prepandemic avg	Jul- 23	Jun- 23	May- 23	Apr- 23	Mar- 23	Feb- 23	Jan- 23	Dec- 22	Nov- 22	Oct- 22	Sep- 22	Aug- 22
<b>Unemployment Rate</b>													
Total	3.5	3.5	3.6	3.7	3.4	3.5	3.6	3.4	3.5	3.6	3.7	3.5	3.7
Prime age (25-54)	3.0	3.0	3.1	3.1	3.1	2.9	3.1	3.0	2.9	3.2	3.2	2.9	3.1
Men	3.5	3.6	3.7	3.7	3.5	3.6	3.6	3.6	3.4	3.7	3.7	3.6	3.8
Women	3.5	3.4	3.4	3.6	3.3	3.4	3.5	3.3	3.6	3.6	3.7	3.4	3.5
White	3.1	3.1	3.1	3.3	3.1	3.2	3.2	3.1	3.0	3.3	3.3	3.1	3.2
Black	6.1	5.8	6.0	5.6	4.7	5.0	5.7	5.4	5.7	5.7	5.9	5.9	6.4
Hispanic	4.3	4.4	4.3	4.0	4.4	4.6	5.3	4.5	4.1	4.0	4.2	3.9	4.5
Asian	2.7	2.3	3.2	2.9	2.8	2.8	3.4	2.8	2.4	2.6	2.9	2.5	2.8
<b>Employment Population Ratio</b>													
Total	61.1	60.4	60.3	60.3	60.4	60.4	60.2	60.2	60.1	59.9	60.0	60.1	60.1
Prime age (25-54)	80.5	80.9	80.9	80.7	80.8	80.7	80.5	80.2	80.1	79.7	79.8	80.2	80.2
Men	66.8	65.5	65.6	65.5	65.7	65.9	65.6	65.5	65.8	65.6	65.6	65.6	65.3
Women	55.8	55.5	55.3	55.3	55.4	55.2	55.2	55.1	54.8	54.5	54.6	54.8	55.1
White	61.3	60.3	60.4	60.2	60.3	60.2	60.1	60.2	60.2	59.8	60.0	60.1	60.1
Black	59.2	59.1	58.9	59.6	60.0	60.9	59.8	59.5	58.9	58.8	58.4	58.5	57.9
Hispanic	64.7	64.4	64.4	64.2	63.8	63.7	63.2	63.3	63.5	63.1	63.3	63.5	63.8
Asian	62.2	64.1	63.3	63.2	63.1	63.1	62.8	62.3	62.7	63.0	62.9	63.2	63.4
<b>Labor force participation rate</b>													
Total	63.3	62.6	62.6	62.6	62.6	62.6	62.5	62.4	62.3	62.2	62.2	62.3	62.3
Prime age (25-54)	83.0	83.4	83.5	83.4	83.3	83.1	83.1	82.7	82.4	82.3	82.5	82.6	82.8
Men	69.2	68.0	68.1	68.1	68.1	68.4	68.0	67.9	68.1	68.1	68.1	68.1	67.9
Women	57.8	57.4	57.3	57.3	57.3	57.1	57.2	57.0	56.8	56.5	56.7	56.8	57.1
White	63.2	62.3	62.3	62.3	62.3	62.2	62.1	62.1	62.1	61.8	62.0	62.0	62.0
Black	63.0	62.7	62.6	63.2	63.0	64.1	63.4	62.9	62.4	62.3	62.1	62.2	61.8
Hispanic	67.6	67.4	67.3	66.9	66.8	66.8	66.8	66.3	66.3	65.7	66.1	66.1	66.8
Asian	63.9	65.7	65.4	65.1	64.9	64.9	65.1	64.1	64.2	64.8	64.8	64.8	65.2
<b>Wage measures</b>													
Employment Cost Index (quarterly, % yoy)	2.7	n.a.	4.5	n.a.	n.a.	4.8	n.a.	n.a.	5.1	n.a.	n.a.	5.0	n.a.
Atlanta Wage Growth Tracker (% yoy, 12mma)	3.7	n.a.	6.1	6.3	6.3	6.4	6.3	6.3	6.3	6.2	6.0	5.9	5.7
NFIB: % Raising Compensation	33.7	38.0	36.0	41.0	40.0	42.0	46.0	46.0	44.0	40.0	44.0	45.0	46.0
NFIB: % Planning to Raise Compensation	22.3	21.0	22.0	22.0	21.0	22.0	23.0	22.0	27.0	28.0	32.0	23.0	26.0
Conference Board: 6-Month Ahead Income Change	22.3	16.3	18.6	18.9	17.3	16.2	14.4	17.4	17.3	17.1	19.6	18.3	16.6
U of M: 1-Yr Ahead Income Change Expectations (Median)	2.2	1.9	1.9	2.3	1.7	1.5	2.4	2.5	2.5	2.5	1.9	1.7	2.3
NY Fed: 1-Yr Ahead Earnings Growth Expectation	2.5	n.a.	3.0	2.8	3.0	3.0	3.0	3.0	3.0	2.8	3.0	2.9	3.0

**Source:** Bureau of Labor Statistics

Note: Prepandemic average is the average of each indicator from December 2019-February 2020

BofA GLOBAL RESEARCH



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