

US Watch

August employment: Goldilocks comes knocking

A downshift in payroll growth

Nonfarm payroll employment topped expectations with a 187k increase in August. Consensus was looking for slightly weaker 170k gain. That said, the slightly stronger-than-expected print was tempered by downward revisions of 110k to the prior two months. As a result, the three-month moving average for nonfarm payrolls fell to 150k; the average was 238k in May and 320k in February. Therefore, there has been a clear downshift in the pace of job growth. Additionally, each initial nonfarm payroll employment gain has been revised lower this year. Moreover, the preliminary benchmark revisions signaled a downward revision of 306k to the March employment level. In short, employment growth this year is turning out not to be as strong as first estimated.

Special factors to consider

As we had flagged in our preview, there were special factors to consider this month. First, the bankruptcy of Yellow Corp., a trucking company that employed 30k people, likely drove the 37k decline in the truck transportation sector. While we do not think that we should look through this completely, the decline is not indicative of trends in the broader sector. Before today's print, the sector has been weakening, but job losses averaged just 1.5k/month in the three months prior. In addition to the bankruptcy of Yellow Corp., the Hollywood writers' strike also likely put downward pressure on job growth. Ahead of the report, the BLS estimated that the strike affected 16k workers in the motion pictures and broadcasting industry, where employment fell by ~17k. We would fade some of that decline, but the outlook for the sector is not entirely optimistic despite the "Barbenheimer" headlines. In June and July, the industry recorded job losses totaling 18k, and movie releases remain depressed compared to pre-pandemic levels.

Narrowly driven

Aside from these special factors, job growth in August continued to be narrowly driven by high-touch services sectors—education and health, leisure and hospitality, and other services. These three sectors have generally been the laggards of the broader employment recovery and account for more than 30% of total payrolls. In August, they added 155k jobs or 83% of the nonfarm payrolls increase. Year to date, they have accounted for 60% of total payroll gains—punching far above their weight. Other sectors have seen more of a moderation in payroll growth. The key question in the months to come is at what level of employment growth do we settle when the high-touch services tailwinds weaken.

(Continued on next page)

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AHE: Average Hourly Earnings

BLS: Bureau of Labor Statistics

FOMC: Federal Open Market Committee

k: thousand

saar: seasonally adjusted annual rate

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Wage growth takes a step down

Compared to June and July, wage inflation moderated as average hourly earnings rose by 0.2% m/m or 4.3% y/y. Over the last three months, average hourly earnings have increased by 4.5% annualized, which is still above levels we judge to be consistent with the Fed's 2% inflation target in the long run but down from a year ago. Importantly, we believe that there are signs that wage inflation could ease further given the ongoing decline in the quits rate and the drop in posted wage inflation.

Average hourly earnings for production and nonsupervisory workers also rose by 0.2% m/m in August and by 4.0% annualized over the last three months. We generally prefer this series as a sign of underlying wage pressures given its longer-running history and given that it excludes higher-paid managers that can skew the average. Goods producing wages continue to grow at a rapid clip (+5.7% 3-month annualized), especially when compared to the pre-pandemic run rate. However, service sector wages are running at just 3.7% annualized over the last three months, compared to 5.7% last August. In our view, this does point to a better balance in labor demand and supply in the sector, which accounts for about 72% of total payrolls.

But income growth remained robust

While we are encouraged by the step down in wage inflation, hours worked did tick up a tenth to 34.4. Therefore, we still are not seeing any real signs that employers are broadly cutting back on hours worked. Additionally, the uptick in hours worked helped drive a strong increase in aggregate wage income. Indeed, the aggregate payrolls index for all workers rose by 0.7% and 7.2% annualized over the last three months. Meanwhile, the index rose by 0.6% and 4.9% annualized over the last three months. With inflation slowing over the same period, consumers are clearly getting fundamental support from higher real wage income in recent months. Therefore, we remain constructive on the consumption outlook.

Unemployment rate jumps but for good reasons

On the household survey side, the unemployment rate surprisingly rose three-tenths to 3.8%. However, this was for good reasons, as employment increased by 222k, and the labor force rose by 736k, its strongest increase since January, when new population estimates were incorporated. The jump in the labor force resulted in the labor force participation rate breaking out from its recent plateau of 62.6%, as it increased to 62.8%, just five-tenths below the February 2020 level. Labor supply continues to surprise to the upside and is helping rebalance the labor market.

Broad-based gains in participation rates

The surge in participation was led by three groups: Women 55+ (up 0.4pp), women 20-24 (up 0.7pp), and men 16-19 (up 2.2pp). The increase among women 55+ is promising if it continues, as it could signal the end of the early retirement trend. The increase among men 16-19 is mixed news because these workers probably are not in college and are now less likely to go. Of course, granular participation data can be choppy, so we should take these moves with a grain of salt.

Nearing full employment

The broad message here seems to be that we are nearing full employment, with supply and demand coming more into balance. Job growth continues to slow towards trend, particularly given the downward revisions to June and July. The gains are concentrated in the laggard sectors. The rest of the labor market probably is at full employment. Participation is expanding more than expected, suggesting that the strength in the labor market is drawing in more workers. Given the solid increase in household employment, we can look through the increase in the unemployment rate. It was for "good reasons." Wage inflation cooled a touch, consistent with the rise in participation and the steady decline in job openings over the last few months. In terms of Fed implications, we think that the market response makes sense. We still think that the Fed will hike rates one more time in November, but obviously, today's data are a touch dovish, so it makes

sense to price a lower probability of a hike. We note that there are two more CPI prints and one more jobs report before the November meeting

Rates and FX: Market reaction

Better labor market balance and cooling wage growth are both allowing the market to price a sharper trajectory of cuts next year and lower probability of an additional hike. Since the print, the real rate curve has bull steepened; market is now pricing 42% probability of another hike (52% pre-report) and 130bps of cuts next year (127bps pre-report). We continue to think that market pricing of 2024 cuts is about the distribution of risks around the inflation outlook. In general, these look extreme to us at the current level and is a key reason why we are wary of steepeners. We like the long-duration trade better given where 10s versus forwards are priced. The data today is another read confirming that the US economy is closer to the end than the beginning of the COVID economic surge and continue to like leaning long here.

The USD initially sold off modestly across the G10 complex (excluding CAD, which depreciated on soft GDP data), with the BBDXY declining approximately 0.2%, led lower by a slightly larger net move in the higher-beta Skandis and Antipodean currencies, before retracing later in the morning on the ISM print. Today's employment data furthers the softening US data signals this week, on balance, (mainly JOLTS, Consumer Confidence, and GDP revisions), which put a halt to the USD's rally over the past several weeks (see the report, [Liquid Insight: Navigating FX by the R-stars](#)).

The USD's initial move lower generally tracked with the modest decline in US rates. As noted above, the probability of another Fed hike pared back after the data release. However, we contend that the timing/magnitude of Fed cuts should ultimately matter more for the USD going forward, and a "higher for longer" policy still speaks to a mitigating of the market's pricing of cuts, both outright and relative to other G10 central banks. We still hold our year-end forecasts for modest USD appreciation versus most G10, though see scope for a short-term pullback from the top of this year's range, as the market assesses this emerging narrative shift on US data and labor market rebalancing.



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

Nonfarm payrolls have increased by an average of 194k over the last six months

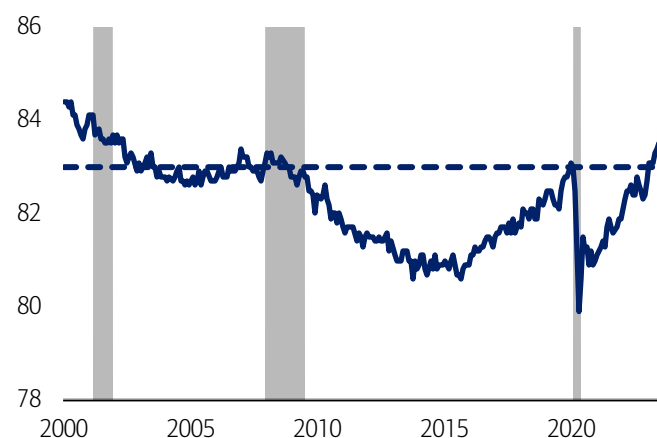
	Aug	Jul	Jun	May	Apr	Mar
Establishment survey						
Nonfarm payrolls	187k	157k	105k	281k	217k	217k
Private payrolls	179k	155k	86k	255k	179k	157k
Construction	22k	16k	29k	25k	11k	-9k
Manufacturing	16k	-4k	4k	-4k	9k	-12k
Government	8k	2k	19k	26k	38k	60k
Average weekly hours	34.4	34.3	34.4	34.3	34.4	34.4
Avg hourly earnings (mom %)	0.2%	0.4%	0.4%	0.3%	0.4%	0.3%
Household survey						
Unemployment rate	3.8%	3.5%	3.6%	3.7%	3.4%	3.5%
Participation rate	62.8%	62.6%	62.6%	62.6%	62.6%	62.6%
Labor force	736k	152k	133k	130k	-43k	480k
Household jobs	222k	268k	273k	-310k	139k	577k
Employment to pop. ratio	60.4%	60.4%	60.3%	60.3%	60.4%	60.4%

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 has slowed in recent months and has increasingly been driven by a narrower group of industries

Aug-23 nfp share	Component	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22
100%	Total nonfarm	187	157	105	281	217	217	248	472	239	290	324	350
86%	Total private	179	155	86	255	179	157	193	353	232	228	299	344
14%	Goods-producing	36	14	32	24	25	-19	18	41	36	41	57	44
0%	Mining and logging	-2	2	-1	3	5	2	1	4	4	8	3	2
5%	Construction	22	16	29	25	11	-9	14	26	26	19	17	16
8%	Manufacturing	16	-4	4	-4	9	-12	3	11	6	14	37	26
5%	Durable goods	12	11	17	3	13	-5	1	0	23	14	27	14
3%	Nondurable goods	4	-15	-13	-7	-4	-7	2	11	-17	0	10	12
72%	Service-providing	143	141	54	231	154	176	175	312	196	187	242	300
18%	Trade, transportation, and utilities	-20	18	-48	48	-17	3	36	61	36	-84	31	7
4%	Wholesale trade	5	18	-7	8	-2	4	7	9	10	0	16	8
10%	Retail trade	6	13	-23	21	-2	-19	48	22	27	-46	-6	-11
4%	Transportation and warehousing	-34	-10	-19	19	-15	16	-18	32	0	-37	20	10
0%	Utilities	3	-3	1	1	2	2	-1	-2	-1	-1	1	0
2%	Information	-15	-15	-10	-4	3	3	-8	-23	-9	13	3	3
6%	Financial activities	4	17	2	13	27	-5	0	-1	4	11	18	2
15%	Professional and business services	19	-20	-1	45	48	45	21	44	23	0	36	48
16%	Education and health services	102	102	79	88	77	70	64	111	71	95	85	80
11%	Leisure and hospitality	40	32	26	28	11	46	57	99	58	123	61	139
4%	Other services	13	7	6	13	5	14	5	21	13	29	8	21

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

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

Wage growth slowed in August, thanks in part to weak wage growth in the goods-producing sector

Aug-23 nfp share	Component	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22
86%	Total private	0.24%	0.42%	0.45%	0.33%	0.42%	0.27%	0.27%	0.30%	0.37%	0.43%	0.40%	0.31%
14%	Goods-producing	0.06%	0.65%	0.56%	0.45%	0.48%	0.54%	0.21%	0.51%	0.33%	0.43%	0.46%	0.37%
0%	Mining and logging	-0.45%	0.11%	-0.16%	0.79%	1.23%	0.46%	0.38%	0.90%	0.52%	0.58%	-0.19%	0.25%
5%	Construction	0.11%	0.88%	0.25%	0.42%	0.33%	0.42%	0.42%	0.25%	0.48%	0.51%	0.57%	0.40%
8%	Manufacturing	0.00%	0.56%	0.81%	0.41%	0.50%	0.63%	0.03%	0.64%	0.22%	0.35%	0.42%	0.32%
5%	Durable goods	-0.15%	0.59%	0.56%	0.54%	0.42%	0.66%	0.06%	0.67%	-0.06%	0.21%	0.46%	0.37%
3%	Nondurable goods	0.33%	0.37%	1.22%	0.14%	0.62%	0.58%	-0.03%	0.59%	0.63%	0.60%	0.39%	0.21%
72%	Service-providing	0.30%	0.36%	0.39%	0.33%	0.39%	0.24%	0.27%	0.24%	0.37%	0.43%	0.40%	0.28%
18%	Trade, transportation, and utilities	0.41%	0.17%	0.49%	0.10%	0.59%	0.17%	0.81%	0.53%	0.21%	0.46%	0.47%	0.36%
4%	Wholesale trade	0.38%	0.05%	0.85%	-0.08%	0.55%	0.11%	0.36%	1.03%	0.53%	0.34%	0.82%	0.09%
10%	Retail trade	0.38%	0.13%	0.25%	0.00%	0.29%	-0.04%	1.06%	0.30%	-0.04%	1.08%	0.43%	0.26%
4%	Transportation and warehousing	0.48%	0.38%	0.59%	0.31%	0.87%	0.42%	0.78%	0.35%	0.21%	-0.11%	0.07%	0.72%
0%	Utilities	-0.24%	0.48%	0.46%	0.49%	0.30%	0.76%	0.20%	0.78%	0.62%	-0.10%	0.46%	1.14%
2%	Information	0.15%	0.23%	-0.21%	1.05%	-0.89%	0.31%	0.34%	0.02%	0.59%	-0.42%	-0.15%	0.80%
6%	Financial activities	1.08%	0.72%	0.77%	0.75%	-0.07%	0.38%	0.09%	0.21%	0.69%	0.17%	-0.07%	0.72%
15%	Professional and business services	-0.07%	0.52%	0.32%	0.22%	0.48%	0.45%	0.23%	0.38%	0.33%	0.54%	0.49%	0.21%
16%	Education and health services	0.27%	0.33%	0.34%	0.18%	0.31%	0.06%	-0.21%	0.37%	0.34%	0.53%	0.59%	-0.06%
11%	Leisure and hospitality	0.24%	0.19%	0.33%	0.48%	0.53%	0.67%	0.05%	0.00%	0.82%	0.83%	0.59%	0.15%
4%	Other services	0.54%	0.10%	0.30%	0.41%	0.85%	-0.81%	0.17%	0.44%	-0.14%	0.82%	0.17%	0.73%

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 4.3% y/y in August

Aug-23 nfp share	Component	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22
86%	Total private	4.29%	4.36%	4.41%	4.34%	4.38%	4.30%	4.68%	4.39%	4.77%	4.99%	4.88%	5.07%
14%	Goods-producing	5.15%	5.29%	5.06%	4.70%	4.59%	4.65%	4.58%	4.33%	4.51%	4.66%	4.48%	4.44%
0%	Mining and logging	4.50%	4.59%	5.71%	6.91%	7.12%	4.78%	4.39%	4.67%	3.36%	3.00%	3.13%	3.68%
5%	Construction	5.16%	5.43%	4.85%	5.01%	5.18%	5.42%	5.50%	5.31%	5.83%	5.92%	5.57%	5.48%
8%	Manufacturing	4.99%	5.13%	5.02%	4.24%	3.92%	4.05%	3.94%	3.56%	3.72%	3.90%	3.78%	3.83%
5%	Durable goods	4.41%	4.82%	4.50%	3.88%	3.55%	3.82%	3.85%	3.11%	3.45%	3.84%	4.08%	3.93%
3%	Nondurable goods	5.77%	5.31%	5.74%	4.73%	4.55%	4.35%	3.89%	4.34%	4.07%	3.94%	3.18%	3.45%
72%	Service-providing	4.07%	4.12%	4.26%	4.28%	4.33%	4.25%	4.69%	4.44%	4.85%	5.07%	4.99%	5.21%
18%	Trade, transportation, and utilities	4.89%	4.76%	4.92%	4.57%	4.99%	4.45%	4.95%	4.49%	4.63%	4.92%	4.86%	4.81%
4%	Wholesale trade	5.14%	4.95%	5.34%	5.27%	5.11%	4.75%	4.93%	5.07%	4.09%	4.11%	4.04%	3.64%
10%	Retail trade	4.16%	3.95%	4.32%	4.43%	4.66%	3.98%	4.85%	4.26%	4.45%	4.97%	4.17%	4.38%
4%	Transportation and warehousing	5.19%	5.26%	5.13%	3.50%	4.72%	4.23%	4.09%	3.78%	3.64%	4.00%	5.51%	5.67%
0%	Utilities	5.48%	5.51%	4.96%	4.99%	5.75%	5.14%	5.77%	5.19%	4.98%	5.97%	6.43%	5.75%
2%	Information	1.82%	3.55%	3.58%	4.56%	4.25%	5.67%	5.18%	5.78%	5.92%	6.22%	6.55%	7.69%
6%	Financial activities	5.55%	4.73%	4.43%	4.42%	3.77%	4.02%	4.42%	3.99%	4.15%	3.62%	3.72%	4.55%
15%	Professional and business services	4.16%	4.48%	4.51%	4.30%	4.23%	4.44%	4.80%	4.64%	4.94%	5.21%	5.01%	5.23%
16%	Education and health services	3.08%	2.93%	3.33%	3.60%	3.90%	3.88%	4.28%	4.14%	4.76%	5.32%	5.11%	5.07%
11%	Leisure and hospitality	4.98%	5.30%	5.63%	5.81%	5.89%	5.92%	6.67%	7.00%	6.56%	6.46%	6.40%	7.57%
4%	Other services	3.63%	3.26%	3.84%	4.54%	4.30%	3.35%	4.27%	3.73%	3.45%	4.14%	3.77%	4.15%

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	Pre-pandemic avg	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22
Unemployment Rate													
Total	3.5	3.8	3.5	3.6	3.7	3.4	3.5	3.6	3.4	3.5	3.6	3.7	3.5
Prime age (25-54)	3.0	3.1	3.0	3.1	3.1	3.1	2.9	3.1	3.0	2.9	3.2	3.2	2.9
Men	3.5	4.0	3.6	3.7	3.7	3.5	3.6	3.6	3.6	3.4	3.7	3.7	3.6
Women	3.5	3.5	3.4	3.4	3.6	3.3	3.4	3.5	3.3	3.6	3.6	3.7	3.4
White	3.1	3.4	3.1	3.1	3.3	3.1	3.2	3.2	3.1	3.0	3.3	3.3	3.1
Black	6.1	5.3	5.8	6.0	5.6	4.7	5.0	5.7	5.4	5.7	5.7	5.9	5.9
Hispanic	4.3	4.9	4.4	4.3	4.0	4.4	4.6	5.3	4.5	4.1	4.0	4.2	3.9
Asian	2.7	3.1	2.3	3.2	2.9	2.8	2.8	3.4	2.8	2.4	2.6	2.9	2.5
Employment Population Ratio													
Total	61.1	60.4	60.4	60.3	60.3	60.4	60.4	60.2	60.2	60.1	59.9	60.0	60.1
Prime age (25-54)	80.5	80.9	80.9	80.9	80.7	80.8	80.7	80.5	80.2	80.1	79.7	79.8	80.2
Men	66.8	65.5	65.5	65.6	65.5	65.7	65.9	65.6	65.5	65.8	65.6	65.6	65.6
Women	55.8	55.6	55.5	55.3	55.3	55.4	55.2	55.2	55.1	54.8	54.5	54.6	54.8
White	61.3	60.4	60.3	60.4	60.2	60.3	60.2	60.1	60.2	60.2	59.8	60.0	60.1
Black	59.2	59.3	59.1	58.9	59.6	60.0	60.9	59.8	59.5	58.9	58.8	58.4	58.5
Hispanic	64.7	63.8	64.4	64.4	64.2	63.8	63.7	63.2	63.3	63.5	63.1	63.3	63.5
Asian	62.2	63.6	64.1	63.3	63.2	63.1	63.1	62.8	62.3	62.7	63.0	62.9	63.2
Labor force participation rate													
Total	63.3	62.8	62.6	62.6	62.6	62.6	62.6	62.5	62.4	62.3	62.2	62.2	62.3
Prime age (25-54)	83.0	83.5	83.4	83.5	83.4	83.3	83.1	83.1	82.7	82.4	82.3	82.5	82.6
Men	69.2	68.2	68.0	68.1	68.1	68.1	68.4	68.0	67.9	68.1	68.1	68.1	68.1
Women	57.8	57.7	57.4	57.3	57.3	57.3	57.1	57.2	57.0	56.8	56.5	56.7	56.8
White	63.2	62.5	62.3	62.3	62.3	62.3	62.2	62.1	62.1	62.1	61.8	62.0	62.0
Black	63.0	62.6	62.7	62.6	63.2	63.0	64.1	63.4	62.9	62.4	62.3	62.1	62.2
Hispanic	67.6	67.1	67.4	67.3	66.9	66.8	66.8	66.8	66.3	66.3	65.7	66.1	66.1
Asian	63.9	65.6	65.7	65.4	65.1	64.9	64.9	65.1	64.1	64.2	64.8	64.8	64.8
Wage measures													
Employment Cost Index (quarterly, % yoy)	2.7	n.a.	n.a.	4.5	n.a.	n.a.	4.8	n.a.	n.a.	5.1	n.a.	n.a.	5.0
Atlanta Wage Growth Tracker (% yoy, 12mma)	3.7	n.a.	6.0	6.1	6.3	6.3	6.4	6.3	6.3	6.3	6.2	6.0	5.9
NFIB: % Raising Compensation	33.7	36.0	38.0	36.0	41.0	40.0	42.0	46.0	46.0	44.0	40.0	44.0	45.0
NFIB: % Planning to Raise Compensation	22.3	26.0	21.0	22.0	22.0	21.0	22.0	23.0	22.0	27.0	28.0	32.0	23.0
Conference Board: 6-Month Ahead Income Change	22.3	16.5	17.8	18.6	18.9	17.3	16.2	14.4	17.4	17.3	17.1	19.6	18.3
U of M: 1-Yr Ahead Income Change Expectations (Median)	2.2	2.4	1.9	1.9	2.3	1.7	1.5	2.4	2.5	2.5	2.5	1.9	1.7
NY Fed: 1-Yr Ahead Earnings Growth Expectation	2.5	n.a.	2.8	3.0	2.8	3.0	3.0	3.0	3.0	3.0	2.8	3.0	2.9

Source: Bureau of Labor Statistics

Note: Pre-pandemic average is the average of each indicator from December 2019-February 2020. Avg = average.

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