August Jobs

GORDON GRAY | SEPTEMBER 7, 2018

The July employment report was a strong opening for the third quarter. The labor market created 157,000 jobs – with upward revisions of 59,000 in May and June. The top-line number is a bit below expectations, but consistent with population growth. Over the past three months, job creation has averaged 224,000 jobs. Job growth was widespread across both the goods (manufacturing was up 37,000) and services (with professional and business services up 51,000) sectors. The second key indicator is average hourly earnings, which ticked up by 7 cents, or up a solid 2.7 percent over the past year. The overall unemployment rate fell by 0.1 to 3.9 percent, even as the labor force participation rate and employment-population rate rose by 0.1, respectively. Across all education levels unemployment fell, with a sharp decline in the least educated (less than high school) to 5.1 percent – an indicator of the strong labor market. Teen unemployment inexplicably jumped by 0.5 to 13.1 percent. Unemployment rates for women (down 0.1), Hispanics (down 0.1), Asians (down 0.1) and African-Americans (up 0.1) were little changed.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand did not change in July;
- The Consumer Price Index increased 0.2 percent in July;
- Real average hourly earnings did not change from June to July;
- Orders for durable goods decreased 1.7 percent in July;
- New home sales decreased 1.7 percent in July;
- The Price Index of U.S. imports did not change in July;
- ISM Non-Manufacturing Index increased to 58.5 percent in August;
- ISM Manufacturing increased to 61.3 percent in August;
- Consumer Confidence Index increased from 127.9 to 133.4 in August;
- ADP reported private sector employment increased by 163,000 jobs in August.

Eakinomics: August Jobs

Guest authored by AAF's Director of Fiscal Policy Gordan Gray

The job market is by many observations historically strong. Initial claims for unemployment insurance have reached an all-time low. I expect the balance of 2018 will continue to reflect these trends. Broadly, that means that unemployment will find new lows over the next several months, payroll growth will continue apace, and earnings will slowly tick up. There will be aberrations along the way, but the near-term outlook is robust.

What are the risks? First, never discount the capacity of policymakers to foul this up. Substantial risk attaches to the administration's misguided trade policy or to economically illiterate policies being ginned up in Congress, such as new taxes on labor. Second, despite prevailing good economic news, there are always potential areas of weakness to keep an eye on. The housing market is one such area of potential vulnerability in an otherwise healthy economy. Home sales and prices fell off in the most recently observed data. While far from a flashing red light, it's certainly an area of risk given the importance of the housing market to the overall strength of the economy. Last, there remains the black box of the unforeseen: economic or geopolitical events that defy forecasting. These events can break for good or bad, but in the near-term these seem more likely to be downside than upside risks.

Since none of these risks were manifest last month (except for some housing data that was less than stellar), August should have reflected the prevailing strong labor market. Accordingly, I expect topline payrolls to have grown by 185,000 in August. Unemployment will have remained at 3.9 percent, and workers will have reported a cent earnings bump.