U6 Fix

August Jobs: A Message for the Fed

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The August jobs report was not expected to reveal a real change in the path of the "meh" recovery – but it was expected to be crucial to the path of Fed policy.

Top-line jobs growth was 173,000 – exactly in line with my expectations. This is consistent with August's high-frequency data; the ADP Employment Report, ISM manufacturing, ISM non-manufacturing were all down slightly.

The unemployment rate fell from 5.3 percent to 5.1 percent – a mixed message. The good news was that the number of unemployed fell. However, the labor force declined by 41,000, the labor force participation rate remained the same at 62.6 percent, the lowest since 1977, and the employment-to-population ratio was unchanged. Unfortunately, the number of those out of the labor force rose by over 250,000.

The unemployment rate for Hispanics edged down to 6.6 from 6.8 percent, reflecting a drop off in labor force participation. Teen unemployment rose to 16.9 after July's anomalous 16.2 percent. The concern remains that the minimum wage hikes may be pricing teens out of the job market.

For the second straight month, there was some hope for the Achilles heel of the labor market – wage growth. Average hourly earnings rose from $25.01 to $25.09 – an annualized rate of 4 percent. Roughly, this is 2.5 percent growth in inflation-adjusted wages, which when combined with rising hours leads to a foundation for income growth.

Data junkies here's your fix: the August U-6 (the broadest measure of unemployment) fell slightly to 10.3 percent.

The bottom line: The August report was not a blockbuster, but the combination of low unemployment and rising wages puts the Fed on notice to begin to move in September. It is increasingly obvious that the pace at which Fed policy genuinely "normalizes" will be dictated by the pace at which there is a switch to permanent, pro-growth reforms – exactly the same menu required for U.S. workers to see rapid wage and income growth.