U6 Fix

The Check is No Longer in the Mail

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The August employment report contained lots of good numbers and one great one. Average hourly earnings rose from $27.06 to $27.16 – an annual rate increase of 4.5 percent and bringing year-over-year increases to 2.9 percent. This has been the Achilles heel of the recovery and the unmet promise of tax reform, so August is promising.

The economy created 201,000 new jobs even though employment fell by 3,000 in manufacturing (one fears this is the leading edge of the fallout due to tariff increases). Downward revisions in jobs for June and July brought the three-month average to 185,000 per month.

The combination of wages and jobs means that overall payrolls rose by 0.5 percent in August – a good foundation for future growth.

The overall unemployment rate was unchanged at 3.9 percent, but this masked a decline of 469,000 in the labor force and – as measured by the household survey – a fall of 423,00 in employment. The labor force participation rate fell by 0.2 to 62.7 percent.

Across education levels, unemployment rose by 0.6 percent for those with less than a high school education and by 0.3 for those with partial education. Teen unemployment fell by 0.3 percent to 12.8 percent.

Unemployment rates for women (down 0.1), Hispanics (up 0.1), Asians (down 0.1) and African-Americans (down 0.3) showed mixed changes.

Data junkies here's your fix: the August U-6 (the broadest measure of unemployment) fell another 0.3 to 7.4, largely due to a decline in the number of discouraged workers.

The bottom line: This continues the trend of strong reports, with wage growth (finally) showing some strength. It guarantees a solid third quarter GDP report but is not so strong as to spook the Fed and accelerate its normalization of monetary policy. It also contains some suggestive evidence that the negative impacts of tariffs are materializing.