ECONOMIC UPDATE

REGIONS

August 5, 2016

July Employment Report: Underneath The Noise, Labor Market Remains Solid

- Nonfarm employment rose by 255,000 jobs in July; prior estimates for May/June were revised up by a net 18,000 jobs.
- Average hourly earnings rose by 0.3 percent, with aggregate private sector earnings up 0.78 percent (up 4.30 percent year-on-year).
- The unemployment rate held at 4.8 percent (4.878 percent unrounded); the broader U6 measure rose to 9.7 percent.

Total nonfarm payrolls rose by 255,000 jobs in July, well ahead of expectations, with private sector payrolls up 215,000 jobs and public sector payrolls up 38,000 jobs. The reported gain in government payrolls should be discounted, as 22,000 of those jobs are reported to have come in the education segment of local government, which is nothing more than seasonal adjustment noise. That, however, is one of the few holes in an otherwise solid report. Revisions to prior estimates for May and June were revised up a net 18,000 jobs for the two-month period, breaking a string of downward revisions. At the same time, hiring in July was broad based, average weekly hours ticked up one-tenth of an hour, and there was a solid gain in hourly earnings.

The unemployment rate held at 4.9 percent, with the labor force and household employment rising by better than 400,000 people. The labor force participation rate edged up to 62.8 percent. There was an increase in the number of those working part-time for economic reasons, to 5.940 million in July from 5.843 million in June. This pushed up the U6 measure of unemployment/underemployment, which now stands at 9.7 percent. At 15.660 million as of July, the number of what the FOMC refers to as underutilized labor resources stands over two million people above what we think consistent with a fully healthy labor market.

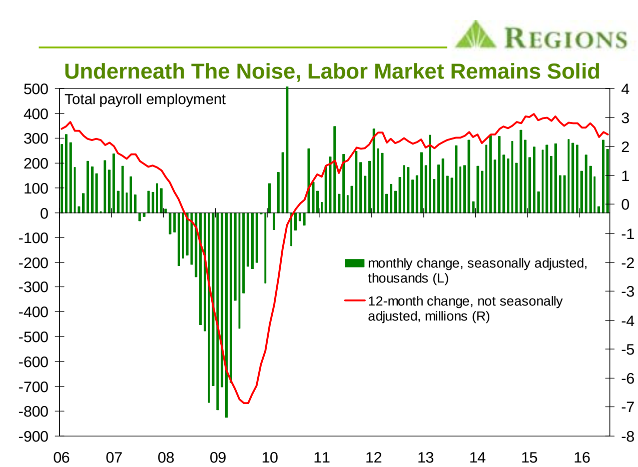
From the payroll survey, payrolls in the goods producing industries rose by 16,000 jobs in July, with construction payrolls up 14,000, factory sector payrolls up 9,000, and mining & logging shedding another 7,000 jobs. We are a bit skeptical of the reported increase in manufacturing payrolls, however, as payrolls amongst producers of motor vehicles are reported to have risen by 6,700 jobs, which we think may be biased higher by seasonal adjustment pertaining to the typical early-July shutdowns for retooling and maintenance. To the extent those shutdowns are skipped or simply aren't as extensive as normal, which we see when sales are as strong as they have been, seasonal adjustment will overcompensate for them.

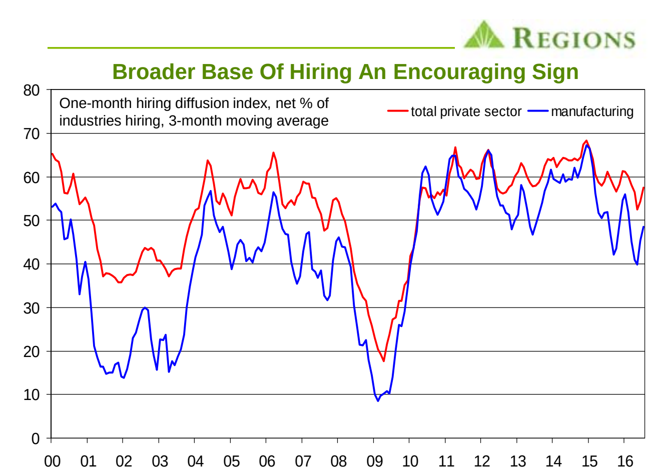
Elsewhere in the private sector, business & professional services added 70,000 jobs in July, health care payrolls rose by 43,200 jobs, and leisure & hospitality services added 45,000 jobs, almost half of which came in eating & drinking establishments. Private sector service providing industries added 201,000 jobs in July, slightly ahead of the 187,000 average over the past 12 months but indicative of the extent to which the services industries are the main driver of overall economic activity.

The mix of jobs added in July helped push the length of the average workweek up to 34.5 hours. Still, to the extent we are skeptical of the reported increase in manufacturing payrolls, we will be watching to see whether the longer workweek sticks in coming months. If you think it trite to quibble over a one-tenth of an hour change, keep in mind a one-tenth of an hour increase is the equivalent of adding over 300,000 jobs in terms of the economy's productive capacity. The one-month hiring diffusion index rose to 63.7 percent in July, the highest since February 2015 and indicative of broad based hiring across the private sector. In manufacturing, the one-month hiring diffusion index rose to 54.4 percent, an encouraging sign of improving conditions, as tipped in the ISM Manufacturing survey.

The earning details in the July report are solid. With the increase in private sector payrolls, the longer workweek, and the 0.3 percent gain in average hourly earnings, aggregate private sector earnings rose a strong 0.78 percent in July, for a year-on-year increase of 4.30 percent. Labor earnings continue to underpin the steady growth in real personal income that is in turn supporting growth in consumer spending.

Though not itself entirely free of noise, the July employment report is nonetheless welcome after several months of very noisy headline numbers. Clearly, underneath it all, the labor market remains solid. For the FOMC, the July employment report is not a green light for them to raise the Fed funds rate at their September meeting but, more significantly, neither is it a red light.





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