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## August Employment Report: Way More Noise Than Signal

- Nonfarm employment rose by 156,000 jobs in August; prior estimates for June/July were revised down by a net 41,000 jobs.
- Average hourly earnings rose by 0.1 percent; aggregate private sector earnings were flat in August but were up 4.6 percent year-on-year.
- The unemployment rate rose to 4.4 percent in August (4.442 percent, unrounded); the broader U6 measure held at 8.6 percent.

Anyone thinking that the August employment report would be the last "clean" employment report before the impacts of Hurricane Harvey began to appear in the data is obviously not familiar with the August employment report. At least the August employment report in any of the past several years. Total nonfarm employment rose by 156,000 jobs in August, with private sector payrolls up by 165,000 jobs and public sector payrolls down by 9,000 jobs. Prior estimates of job gains in June/July were revised down by a net 41,000 jobs for the two-month period, but this reflects an upward revision of 10,000 to estimates of private sector job growth while estimates of public sector job gains were revised down by 51,000 jobs.

Over the past several years the initial estimate of job growth in the month of August has been revised significantly higher, with 2015 being the outlier. One culprit is a consistently low initial response rate to the BLS's establishment survey. This August proved no exception, with a response rate of 70.0 percent, the lowest so far in 2017 and below the average August response rate of 73.5 percent from 2007 through 2016. In addition to a low response rate biasing down initial estimates of August job growth, this August saw the survey week end on the 12<sup>th</sup> of the month, and historical data show that reported job growth months in which the survey week ends prior to mid-month is biased lower, as is also the case with reported average hourly earnings.

Based on the combination of these two factors, we had low expectations for the August employment report. We expected total job growth of 179,000 jobs, with private sector payrolls up by 146,000 jobs. Our forecast called for average weekly hours to fall to 34.4 hours, average hourly earnings to rise by 0.1 percent, and the unemployment rate to rise to 4.4 percent, all of which were on the mark. But, as we noted in our weekly *Economic Preview*, we suggested the August employment report should be heavily discounted due to what we expected to be a high degree of noise in the data, and now having seen the August employment report, discounting it is still the right call.

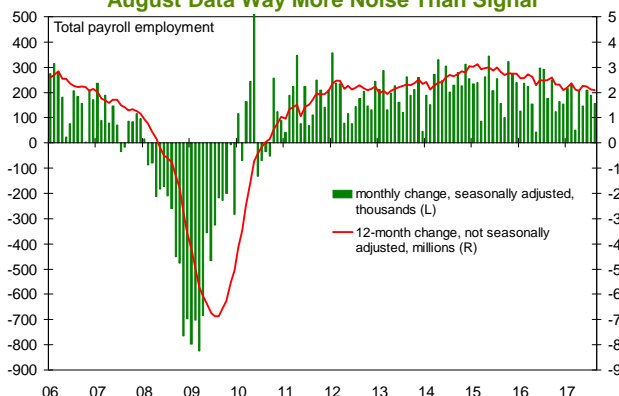
Still, there are two elements of our forecast that were badly off the mark. We expected a sizeable increase in government employment, mainly tied to seasonal adjustment issues tied to the start of the school year. Instead, government payrolls fell in August, including a decline in combined state and local government education payrolls. It figures the September data will show a sizeable increase, unless of course the August data are revised higher. After all, almost the entire downward revision to prior estimates for June/July government payrolls came from, you guessed it, state and local government education payrolls. That the timing of the school year varies from year to year, not to mention from state to state, makes it inherently difficult to properly seasonally adjust the data, but, again, in the end this is nothing more than noise.

That is also how we would characterize the reported 36,000 job increase in manufacturing payrolls in August, and not simply because it trounces what our forecast anticipated. Payrolls tied to production of motor vehicles are reported to have risen by 13,7000 jobs in August, despite many manufacturers having cut back shifts in the face of rising inventories of smaller automobiles. Still, that job growth in the rest of the factory sector remains steady is consistent with other indicators of broad based expansion in manufacturing activity.

As with any given data release in any given month, what matters is the underlying trends not the headline numbers. The August employment report is a perfect example of that. The trend rate of private sector job growth remains quite healthy and notably broad based across private sector industry groups. Monthly job growth has averaged 174,000 over the past 12 months and growth in aggregate labor earnings continues to easily outpace inflation. While we had noted in our *Economic Preview* that we expected the September data to make up for the noise that would cloud the August data, that is no longer the case in the aftermath of Harvey. That said, there is nothing in the August employment report that changes our view of the underlying health of the labor market.



August Data Way More Noise Than Signal



Aggregate Earnings Easily Outpacing Inflation

