

## US August Jobs Report: Soft

The US employment report for August was soft. A net new 151k jobs were added to nonfarm payrolls, 29k below the Consensus expectation, and a sizable slowdown from the +270k gains in July and June which represented bounce backs from the anomalous low gain in May. Average hourly wage growth decelerated on the month to +0.1% m/m (Consensus: +0.2%) and aggregate hours worked declined by 0.2% suggesting that total personal incomes were probably flat to slightly declining on the month. The household survey was also weak, with its measure of employment rising by only 97k and unemployment increasing by 79k. As a result, the labor force participation rate was flat at 62.8% and the employment-to-population ratio was unchanged at 59.7%.

The weak employment report for August markedly reduces the chance of a Federal Reserve September hike. As such, the baseline continues to be that the FOMC will wait until December before raising interest rates again. It is important to note that the US is near full employment with the unemployment rate already back at its natural level, so there will likely continue to be a step down in job growth (from +200k) going forward.

As shown in the charts below, the BLS' initial estimate of August nonfarm payroll growth tends to fall below the Consensus forecast, only to be revised up in subsequent revisions. It is not obvious what the cause of this downward bias is, but it could be due to less accurate tabulations because of the vacation period. Therefore, do not be surprised to see an upward revision to these August numbers in the next employment report.

On average hourly earnings, some deceleration in the monthly change due to a calendar quirk was expected. There will probably be some bounce back in the reports in coming months.

Aggregate hours worked declined by 0.2% on the month and were revised down in July to a 0.2% gain from a 0.5% gain previously. The declines in hours worked occurred in both the goods-producing and service-providing sectors and suggests that the pace of real economic activity was probably broadly lower for the month. The deceleration in aggregate hours worked this quarter bodes well for productivity growth in Q3.

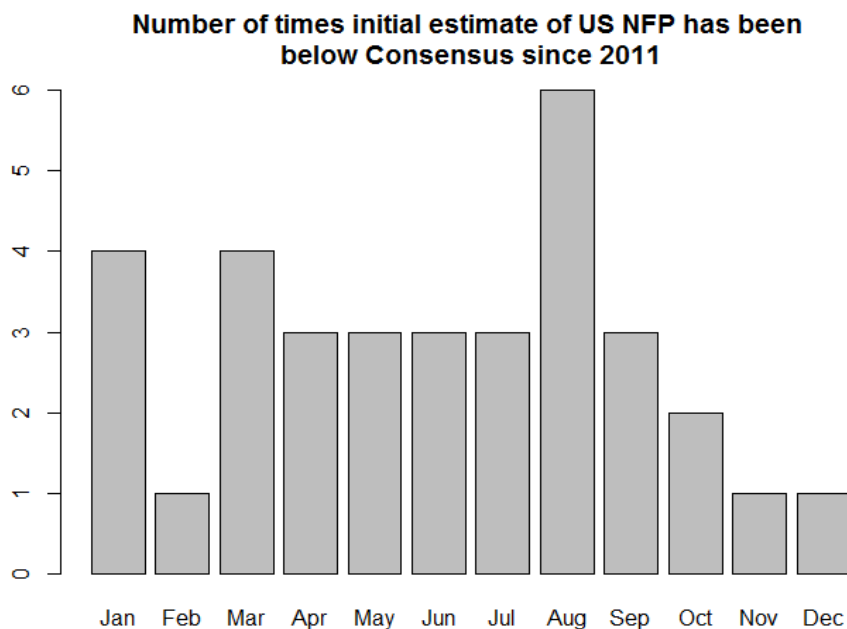
Private employment increased by only 126k and the government continued to increase payrolls at a fairly robust pace, adding 25k jobs. As has been the case in recent years with the improving fiscal situations of state and local governments, they added the bulk of the jobs as the Federal government added only 1k jobs. The strong pick up in government employment this quarter supports the expectation government consumption and investment will rebound in Q3 from its temporary decline in Q2.

Job growth in the goods sector reversed course in August, falling by 24k, after increasing in July, as all major categories – construction, mining and logging, and manufacturing – shed jobs. The declines in mining and logging, and manufacturing jobs were expected, and the decline in construction jobs occurred in the nonresidential sector, pointing to potential weak business investment in structures again this quarter.

Service sector employment growth slowed to 150k in August, largely due to slower hiring for administrative and support services.

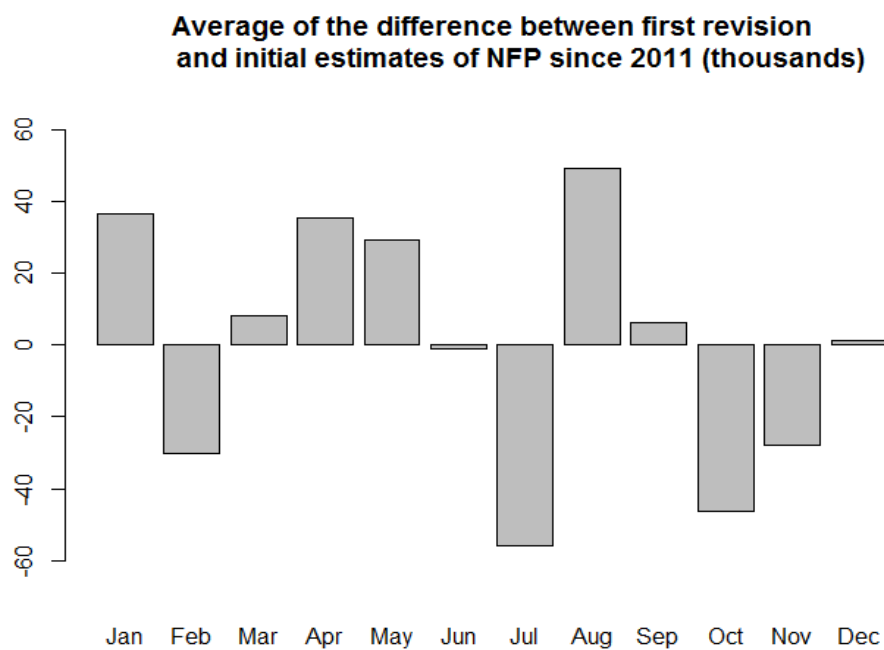
02 September 2016

Chart 1: Number of times initial estimate of US NFP has been below Consensus since 2011



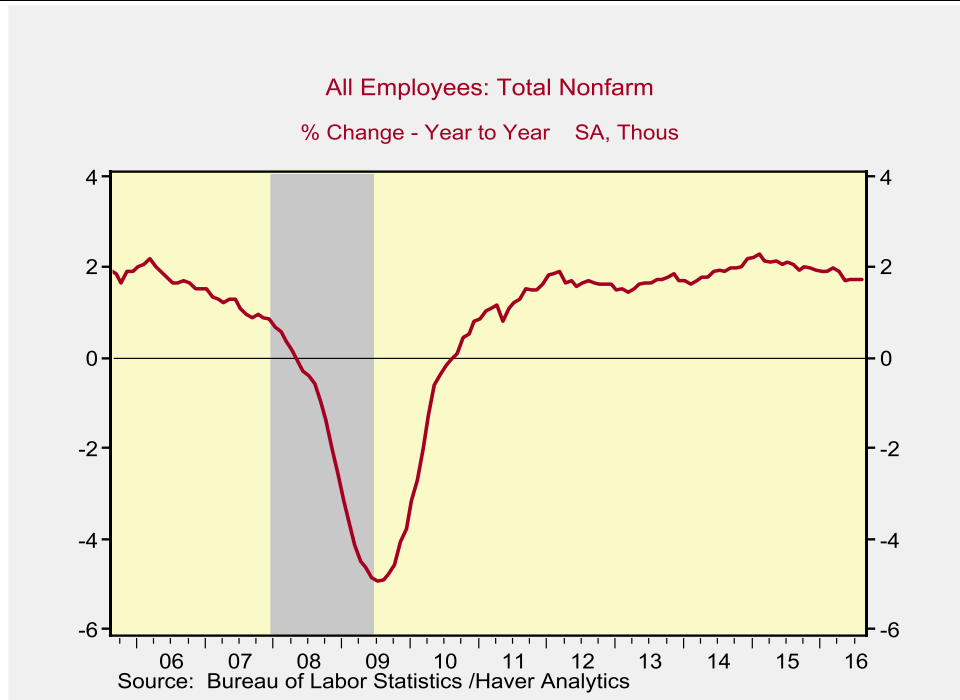
Source: Bureau of Labor Statistics, Bloomberg and Berenberg Capital Markets

Chart 2: Average of the difference between first revision and initial estimates of NFP since 2011 (thousands)



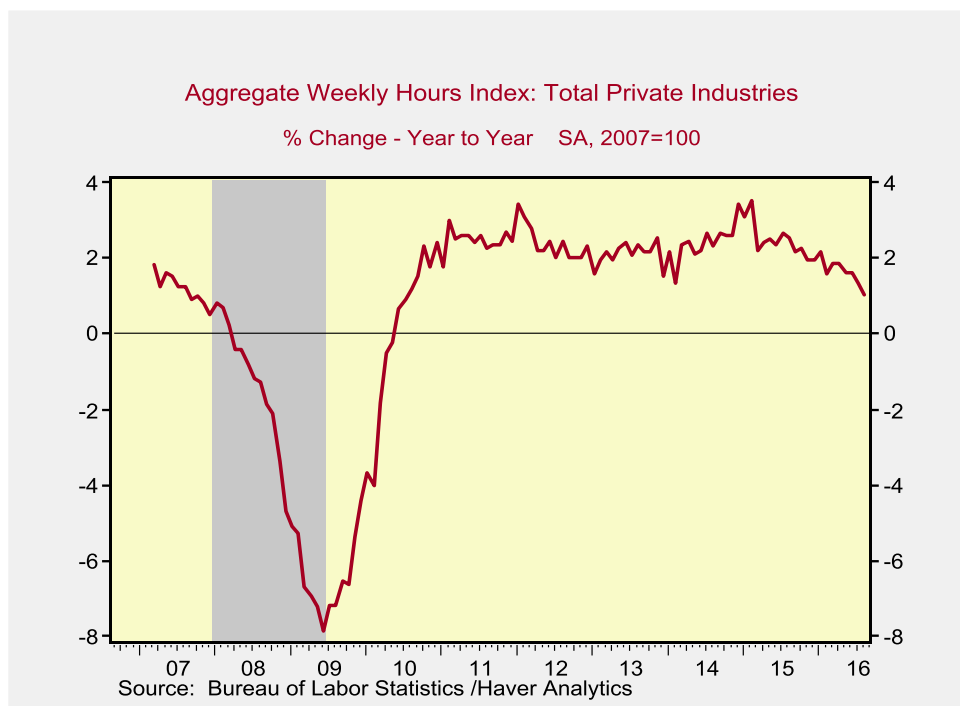
Source: Bureau of Labor Statistics, Bloomberg and Berenberg Capital Markets

Chart 3: Year-Over-Year change in total nonfarm payrolls



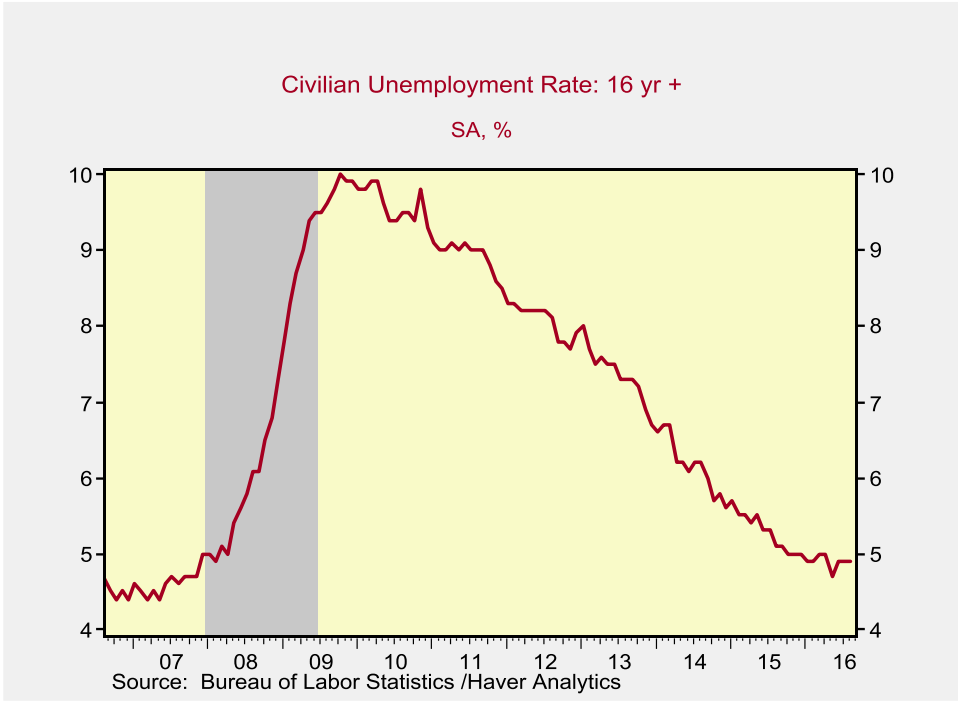
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Year-Over-Year change in aggregate weekly hours worked



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Civilian Unemployment Rate



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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