Daiwa Capital Markets

U.S. Data Review

- Labor market: continued improvement, but still far to go

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The Employment Situation

Nonfarm payrolls rose 1.371 million (or 1.0 percent) in August, about matching the consensus estimate of 1.35 million and marking the fourth consecutive monthly gain of more than one million new jobs. The increase was boosted somewhat by the addition of 238,000 temporary census workers, but the advance was still firm excluding this influence. The latest gains signal that the economy remains on a recovery track, although it is still far from normal, as gains in the past four months have recouped only 47.9 percent of the jobs lost in March and April (46.8 percent excluding census workers).

Job gains in August were encouraging in that several sectors that had been severely affected by the pandemic posted above-average results. The retail trade sector, for example, boosted payrolls by 1.7 percent (versus the 1.0 percent advance in total employment). The leisure industry and "other" services both registered job growth of 1.4 percent. Transportation and warehousing posted growth of 1.5 percent (mostly warehousing; transportation continued to underperform). Employment in the information sector grew 0.6 percent, but the increase offset only a portion of net job reductions in the prior three months. Temporary-help services were robust, with growth of 4.6 percent. The below-average industries included construction and manufacturing (both up only 0.2 percent). The financial services industry also was unimpressive with growth of 0.4 percent. The mining industry continued to trim payrolls.

Employment Report*

	Nonfarm Payrolls		Private-Sector Payrolls	Unemp. Rate	Broad Unemp. Rate	Household Emp.	Labor Force	Emp.-Population Ratio	Median Duration of Unemp.	Part-Time Econ. Reasons	Avg. Hourly Earnings	Avg. Workweek
	(Chg., Thousands)			(Percent)		(Chg., Thousands)		(Pct.)	(Weeks)	(Thou.)	% Chg.	(Hours)
Annual Average												
2017	176		170	4.3	8.5	147	69	60.1	10.1	5,254	0.2	34.4
2018	193		183	3.9	7.7	237	214	60.4	9.3	4,779	0.3	34.5
2019	178		162	3.7	7.1	165	120	60.8	9.2	4,407	0.2	34.4
2020	-1,386		-1,290	8.7	14.4	-1,439	-465	56.6	10.1	7,608	0.5	34.4
Qtrly. Average												
19-Q3	203		171	3.6	7.0	383	306	60.9	9.1	4,230	0.2	34.4
19-Q4	210		200	3.5	6.8	168	168	61.0	9.1	4,278	0.2	34.3
20-Q1	-303		-319	3.8	7.5	-1,010	-548	60.8	8.5	4,755	0.4	34.3
20-Q2	-4,427		-3,957	13.0	20.7	-4,530	-994	52.9	7.8	10,194	0.8	34.5
2019 Monthly												
Oct.	185		190	3.6	6.9	246	350	61.0	9.2	4,397	0.3	34.4
Nov.	261		247	3.5	6.8	-8	-54	61.0	9.2	4,288	0.4	34.3
Dec.	184		164	3.5	6.7	267	209	61.0	9.0	4,148	0.1	34.3
2020 Monthly												
Jan.	214		179	3.6	6.9	-89	50	61.2	9.3	4,182	0.2	34.3
Feb.	251		220	3.5	7.0	45	-60	61.1	9.1	4,318	0.3	34.4
Mar.	-1,373		-1,356	4.4	8.7	-2,987	-1,633	60.0	7.0	5,765	0.6	34.1
Apr.	-20,787		-19,835	14.7	22.8	-22,369	-6,432	51.3	2.0	10,887	4.7	34.2
May	2,725		3,236	13.3	21.2	3,839	1,746	52.8	7.7	10,633	-1.1	34.7
June	4,781	(4,791)	4,729	11.1	18.0	4,940	1,705	54.6	13.6	9,062	-1.3	34.6
July	1,734	(1,763)	1,481	10.2	16.5	1,350	-62	55.1	15.0	8,443	0.1	34.5
Aug.	1,371		1,027	8.4	14.2	3,756	968	56.5	16.7	7,572	0.4	34.6

** Preliminary readings on nonfarm payrolls are shown in parenthesis.*
Source: Bureau of Labor Statistics via Haver Analytics

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The unemployment rate was a more impressive element of the report, as the measure fell 1.8 percentage points to 8.4 percent. It was a “strong” reduction in that it was led by a surge in employment as measured by the household survey (3.756 million) that exceeded the solid increase in the size of the labor force (968,000). As in other recent months, the jobless rate was understated to a degree because of misclassification of individuals in the household survey (reported as employed but not at work rather than on temporary layoff). The Bureau of Labor Statistics estimated that the misclassification reduced the unemployment rate by 0.7 percentage point in August, a bit better than the 0.8 percentage point influence in July and vastly better than the 4.8 percentage points in April. The broad unemployment rate also fell sharply, dropping 2.3 percentage points to 14.2 percent. The number of involuntary part-time workers fell noticeably and added to the influence of lower unemployment in the traditional measure.

Average hourly earnings rose 0.4 percent in August, firmer than the expectation of no change. This measure has not been helpful in gauging the fundamental changes in wages in recent months, as it has been severely affected by compositional changes in the workforce (low-wage workers losing jobs in the spring and dropping out of the calculated average, and then returning in recent months). The increase in August offers a hint of fundamental improvement, as job growth in retail trade and leisure (low-wage areas) were strong and average hourly earnings rose despite the compositional shift toward below-average industries. However, we would be cautious in drawing conclusions based on this measure.