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ECONOMIC REPORT

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SLOWER JOB GROWTH IN AUGUST, ESPECIALLY IN PRIVATE SECTOR, ALTHOUGH LABOR INCOME BETTER

SUMMARY

- The U.S. economy added 130,000 jobs in August, below expectations; the private sector was noticeably soft. Job growth has slowed in 2019.
- The unemployment rate held steady at 3.7 percent in August, with good details.
- Wage growth was very good in August. Labor income is rising, which should keep the U.S. expansion intact.
- The global economy and the U.S.-China trade war are drags on the U.S. economy.

Job growth slowed in August to 130,000, below the consensus expectation for an increase of 160,000. Job growth was also revised lower in both July (to 159,000 from 164,000) and June (to 178,000 from 193,000), for a combined downward revision of 20,000. Job growth has averaged 156,000 over the past three months, down from 168,000 per month in the year through March 2019 (taking into account preliminary revisions). Private-sector job growth was soft in August at 96,000, down from an average of 124,000 in the previous three months (see Chart 1). Government employment rose by 34,000 in August, led by an increase of 28,000 for the federal government as hiring for the 2020 Census ramps up.

The unemployment rate held steady at 3.7 percent for a third straight month in August. Outside of a 3.6 percent rate in April and May, this is the lowest the unemployment rate has been in 50 years. The details underlying the unemployment rate were positive. Employment in the household survey (different from the survey of employers) rose by 590,000, the largest increase since early 2018; this followed solid gains in each of the three previous months. The labor force increased by 571,000 in August, and the labor force participation rate rose by 0.2 percentage point to 63.2 percent. Along with a couple of months earlier this year, this is the highest the labor force participation rate has been in six years. Strong wage growth could be pulling in more potential workers from the sidelines. While the increase in the labor force participation rate is a sign of confidence in the labor market, it is still down significantly from around 66 percent before the Great Recession. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) rose slightly to 7.2 percent in August; the 7.0 percent rate in July was the lowest U-6 rate since December 2000.

Job growth was mixed across industries in August. Goods-producing industries added 23,000 jobs over the month, after a loss of 2,000 in July. Manufacturing employment rose by 3,000 in August; the sector is at best holding even in the late summer. Construction employment rose by 14,000 in August, after job losses of 2,000 in July. Employment in private service-providing industries increased by 84,000 in August, down from 133,000 in July. Business/professional services employment was up by 37,000 in August, including a solid gain of 15,000 in temporary employment. Eds and meds added 32,000 jobs over the month, and there were gains of 15,000 in financial activities and 12,000 in leisure/hospitality services. Retail trade employment fell by 11,000 in August, and was down by 84,000 from one year earlier; the increasing prevalence of online sales continues to weigh on traditional brick-and-mortar retailing.

One bright spot in August was income. Wage growth picked up as average hourly earnings rose 0.39 percent in August from July, the biggest one-month gain in a year. Wage growth was also revised higher in June and July. Year-over-year growth in wages was 3.2 percent in August, down from an upwardly revised 3.3 percent in July. Wage growth remains well above the pace of inflation. The average workweek bumped back up to 34.4 hours in August, after temporarily dipping to 34.3 hours in July; it has been between 34.3 and 34.5 hours for more than five years. Also encouraging was a rebound in the average manufacturing workweek to 40.6 hours, after it fell to 40.4 hours in July from 40.7 hours in June. With more

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jobs, a good increase in wages, and a slightly longer workweek, aggregate weekly earnings rose 0.69 percent in August, the biggest one-month increase since January 2016. As a result real consumer income rose sharply over the month, with likely no inflation in August (the consumer price index will be released on September 12).

U.S. job growth is slowing heading into the fall, although it still strong enough that the current economic expansion will continue. Slower global economic growth and the tight labor market are contributing to softer U.S. job growth in 2019. It could also be that the escalation in the U.S.-China trade war weighed on hiring in August, although it will take a couple of months to confirm that.

However, even with slower job growth, the U.S. economy is still in decent shape in the third quarter of 2019, although risks are weighted to the downside. Consumer spending remains the biggest positive for the outlook. Although job growth has slowed, the tight labor market is boosting wages, leading to gains in labor income (see Chart 2). Consumers account for 70 percent of U.S. GDP, and with their incomes rising, they are willing to boost their spending. However, higher prices from tariffs on imported goods from China will be a near-term drag on consumers. Slower global economic growth, trade tensions and associated uncertainty, and the strong U.S. dollar are negatives for the U.S. economy right now, and manufacturing is at best flat.

Job growth is slowing from its pace of around 200,000 per month last year to around 150,000 for all of this year, as the tighter labor market constrains hiring. The unemployment rate is set to move a bit higher in the near term as job growth slows, and will end 2019 at around 3.8 percent. Wage growth will remain above 3 percent in the second half of 2019 as businesses find it more and more difficult to attract qualified workers.

Risks are weighted to the downside, including the ongoing trade war with China, and potentially other major U.S.

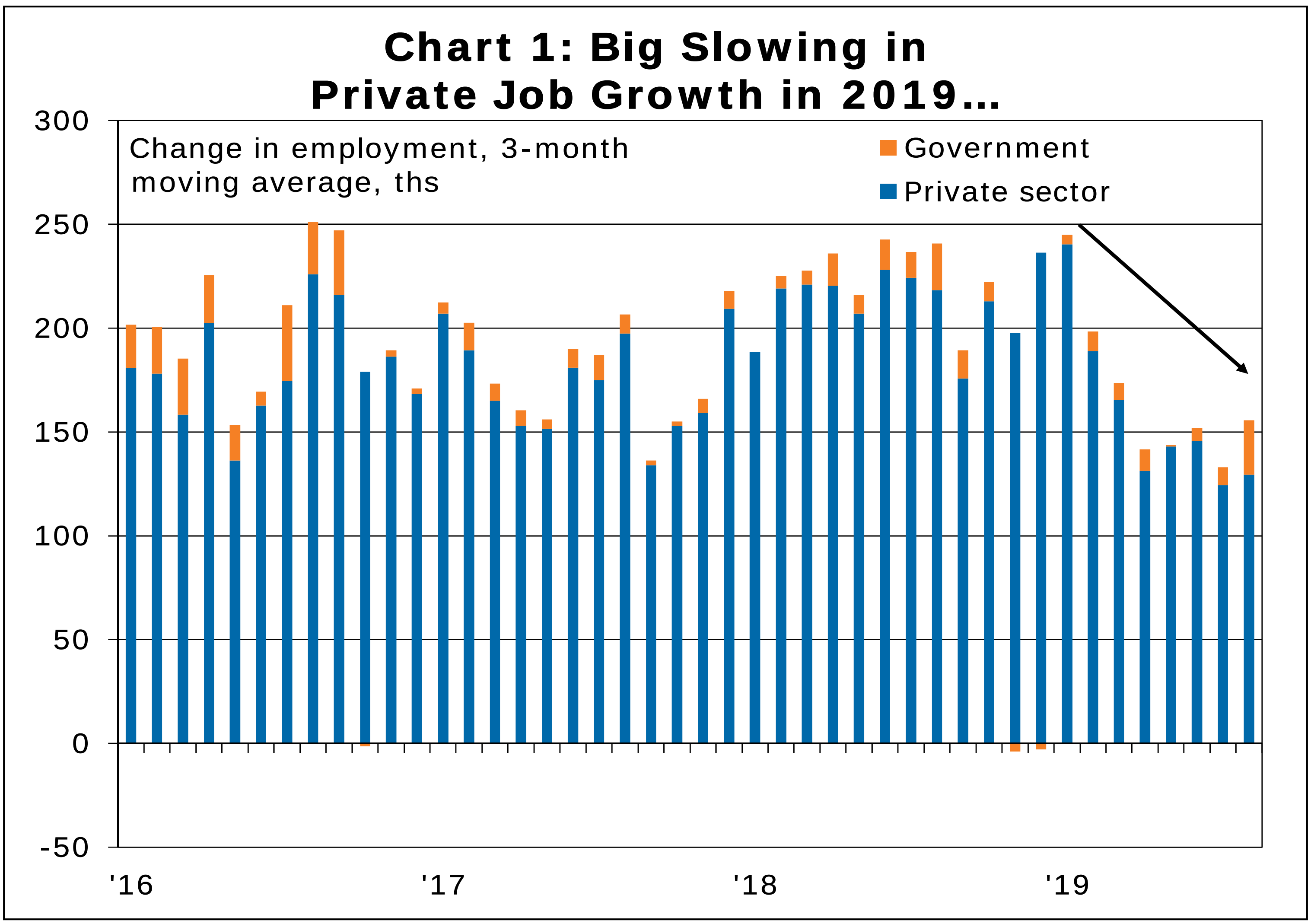

Chart source: Bureau of Labor Statistics

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trading partners; an even further slowing in global growth; and geopolitical concerns like Brexit. Stronger labor force growth than expected, as higher wages bring more people into the job market, is a major upside risk, as is the potential for a U.S.-China trade agreement that would reduce tensions.

After cutting the fed funds rate by 0.25 percentage point on July 31, the Federal Open Market Committee will cut the rate by another quarter of percentage point at its next meeting, on September 17 and 18, concerned about downside risks to the outlook and the ongoing slowing in job growth. PNC expects another 0.25 percentage point fed funds rate cut at the FOMC's late October meeting; this would bring the rate to a range of 1.50 to 1.75 percent by the end of 2019. The FOMC has the leeway to cut rates with inflation well below the central bank's 2 percent objective and muted wage pressures.

The financial market response to the release of the jobs report was modestly positive. The S&P 500 rose 0.1 percent on the day. The yield on the 10-year Treasury note fell slightly to 1.55 percent; short-term rates were also down a bit. The price of a barrel of West Texas Intermediate crude oil rose by 0.5 percent to around $56.60, while the U.S. dollar was flat against a basket of currencies.

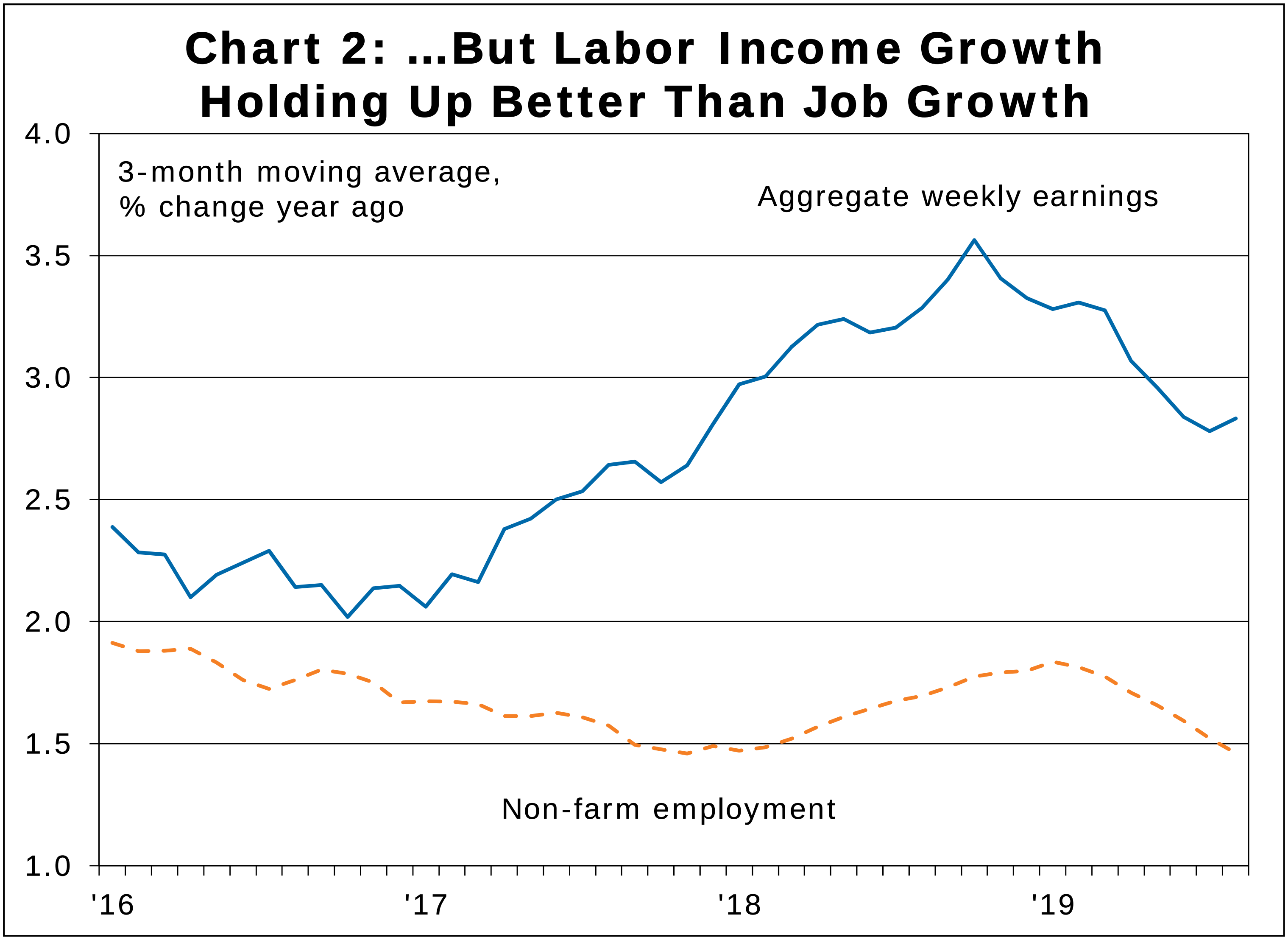

Chart source: Bureau of Labor Statistics

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