Economic Update

PNC

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Job Growth Stronger in August, But With Downward Revisions to June and July; Unemployment Rate Down Slightly

- **Job growth was 142,000 in August, up from July, but there were big downward revisions to job growth in June and July. Job growth has softened since 2023.**
- **The unemployment rate fell slightly in August to 4.2%, with increases in both household employment and the labor force.**
- **Income growth over the month was good, with strong wage growth.**
- **The FOMC is ready to cut the federal funds rate by 0.25 percentage point in a couple of weeks, with further rate cuts in 2024 and 2025. In a speech Fed Governor Waller called for multiple near-term cuts in the fed funds rate.**
- **Market reaction to the report was somewhat negative.**

The U.S. economy added 142,000 jobs in August, according to a survey of employers from the Bureau of Labor Statistics, a larger increase than in July. The consensus expectation was for an increase of 165,000. Part of the August gain could be a rebound after Hurricane Beryl weighed on employment in July. While the headline number was decent, there were large downward revisions to job growth in June (to 118,000 from 179,000) and July (to 89,000 from 114,000). Over the past three months the U.S. has added 116,000 jobs on average, below the pace of 174,000 per month from March 2023 to March 2024 (taking into account recently announced revisions). The private sector added 118,000 jobs in August, with government gains of 24,000.

The unemployment rate fell to 4.2% (4.222% before rounding) in August from 4.3% (4.253% before rounding) in July. After soaring to almost 15% in April 2020 with the pandemic, the unemployment rate dropped to a more than 50-year low of 3.4% in early 2023. But it has risen gradually since then, and the 4.3% rate in July was the highest since late 2021. Still, the unemployment rate remains low on an historical basis.

Employment in a survey of households (different from the survey of employers) rose by 168,000; the household jobs number tends to be more volatile than the employer one. Job growth in the household survey has averaged 117,000 per month over the past three months. The labor force—the number of adults working or looking for work—increased by 120,000 in August. The labor force participation rate—the share of adults working or looking for work—was 62.7% in August, unchanged from July. The labor force participation rate has been between 62.5% and 62.8% for about a year and a half, consistently below the 63%+ rate from before the pandemic.

The average workweek rose to 34.3 hours in August from 34.2 hours in July; it could be that Hurricane Beryl weighed on the workweek in July. The average workweek peaked at 35.0 in early 2021 as the economy was recovering from the pandemic, and has gradually moved lower since then. Average hourly earnings rose 0.4% in August to $35.21, after increasing 0.2% in July; Beryl may also have been a factor here. With employment

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up, the average workweek up, and wages up, aggregate earnings rose 0.8% in August from July, the biggest increase since late 2023. This is a major positive for consumer spending.

The August jobs report was a mixed bag. The headline number rebounded to a solid 142,000 in August, but with the big downward revisions in June and July job growth is definitely slowing in the summer of 2024. The household number was a bit stronger in August, and the three-month moving averages for the two measures are consistent with job growth that is running somewhat below the pace needed to keep up with labor force growth. But with solid increases in the workweek and in the average wage labor income growth was good over the month.

The Federal Open Market Committee, and in particular Fed Chair Jerome Powell, have signaled that they are ready to cut the federal funds rate when they meet on September 18. The fed funds rate, the Fed's key short-term policy rate, has been in a range between 5.25% and 5.50% for more than one year, after the FOMC aggressively raised the rate in 2022 and 2023 in effort to cool economic growth and slow inflation. Powell said in his Jackson Hole speech last month that the central bank "does not seek or welcome further cooling in labor market conditions." Similarly Federal Reserve Governor Christopher Waller, in a speech shortly after the release of the August employment report, noted a "gradually moderating" labor market and said that "the time has come to begin reducing the target range for the federal funds rate." Waller called for cuts to be done "carefully," suggesting that the cut at the next FOMC meeting is likely to be 25 basis points. But he also said that he foresees multiple cuts to the fed funds rate in the near term, and remained open to larger fed funds rate cuts if the labor market slows more than expected. With inflation easing to the Fed's 2% objective and a softening labor market, PNC expects additional 25 basis point fed funds rate cuts at the FOMC's remaining 2024 meetings in early November and mid-December; that would bring the rate to a range of 4.50% to 4.75% at the end of the year. PNC expects additional fed funds rate cuts in 2025.

PNC expects job growth to continue near its current pace in the near term, with the unemployment rate holding close to its current level. The labor market has softened, but job gains should continue as consumer spending growth remains solid and businesses continue to invest. Job growth should pick up in the second half of 2025 as lower interest rates support stronger economic growth.

Market reaction to the August jobs report was initially muted, with the S&P 500 opening the session slightly down. But stock prices continued to drop and the S&P 500 ended the day down 1.7%. The yield on the 10-year Treasury note was down 2 basis points on the day and finished at 3.71%. The dollar strengthened slightly against a basket of currencies. The price of a barrel of West Texas Intermediate crude oil started the day up, but closed down more than 2% at around $67.50. The fed funds futures market initially priced in a greater than 50% probability of a 50-basis point cut in the fed funds on September 18, but by the end of the day that probability was down to 30%, with a 70% probability of a 25-basis point cut.

Private goods-producing industries added 10,000 jobs in August, with a gain of 34,000 in construction but a loss of 24,000 in manufacturing. Private service-providing employment rose by 108,000 over the month, led by an increase of 47,000 in education and health services. There were job gains of 11,000 in financial activities and 8,000 in both professional/business services and transportation/warehousing. There were job losses in August of 11,000 in retail trade and 7,000 in information. The diffusion index of job growth (greater than 50 means more industries are adding jobs than losing jobs) rose to 53.2 in August from 47.8 in July, indicating broader-based job gains over the month.

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