Economic Update

PNC

September 1, 2023

187,000 Jobs Added in August But Big Downward Revisions in Previous Two Months as Labor Market Cools; Employment Rate Jumps as Labor Force Expands

- **US job growth was 187,000 in August, somewhat above consensus expectations, but there were big downward revisions to job growth in June and July.**
- **Over the past three months the economy has added 150,000 jobs on average, down from above 300,000 per month earlier this year.**
- **The unemployment rate rose to 3.8%, its highest level since early 2022, but the increase came from more people looking for work, a good indicator.**
- **Wage growth slowed somewhat in August, but remains too high for the Fed.**
- **The labor market is softening, but it is unclear with this will end with slower growth or a recession. PNC is forecasting a mild recession starting in early 2024.**
- **The FOMC is likely to hold the fed funds rate steady when it meets later this month. Monetary policy is currently weighing on economic growth.**

The US economy added 187,000 jobs in August according to a survey of employers from the Bureau of Labor Statistics, above expectations for an increase of 170,000. Job growth was revised significantly lower in both June (105,000 from 185,000) and July (157,000 from 187,000). With the downward revision June was the weakest month for job growth since December 2020, when employment fell as the pandemic reaccelerated. Over the past three months monthly job growth has averaged 150,000 per month. This is less than one-half the pace of the first three months of 2023 (318,000 per month), and is the slowest three-month average since mid-2020, during the very beginning of the recovery. Private-sector employment rose by 179,000 in August, with government employment up by 8,000. There were job losses in movie production of 17,000 in July due to the actors' and writers' strikes.

The unemployment rate jumped to 3.8% in August from 3.5% in July; this is the highest unemployment rate since February 2022. However, the unemployment rate largely increased because of more people looking for work, a good sign for the economy. The labor force, the number of people working or looking for work, rose by a big 736,000 in July. The labor force participation rate, the share of adults in the labor force, rose to 62.8% in August from 62.6% in July. This is the highest the labor force participation rate has been since before the pandemic. If sustained, this increase in the labor force could help cool off wage growth and slow inflation.

The number of people employed in a survey of households, which is different from the survey of employers, rose by a good 222,000 in August and July. This number is used to calculate the unemployment rate. The combination of solid job growth in the household survey combined with a much bigger increase in the labor force is a positive development for the labor market and for the inflation outlook.

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Goods-producing industries added 36,000 jobs in August, solid gains in construction (+22,000) and manufacturing (+16,000). Private service-providing industries added 143,000 jobs in July, with big gains in education and health services (+102,000) and leisure/hospitality services (+40,000). Employment in temporary employment services fell for a seventh straight month in August; this often leads the overall labor market as firms use temporary help to deal with temporary fluctuations in demand. Employment in the information industry, which includes TV and movie production, fell by 15,000 in August.

Average hourly earnings rose 0.2% in August, the smallest increase since February 2022. On a year-ago basis average hourly earnings were up 4.3%, down from 4.4% growth in July and almost 6% growth in early 2022. Slowing wage growth will help bring down inflation, but wage gains are still too strong for the Federal Reserve; wage growth of 3% to 3.5% has historically been consistent with the central bank's 2% inflation objective.

The July jobs report was welcome news for the Federal Reserve. Job growth has slowed substantially in 2023 to a more sustainable pace, the labor force increased, and wage growth slowed somewhat. Even the increase in the unemployment rate is good news, as it came from a larger labor force and not a drop in employment. The question is whether job growth settles in at around 100,000 per month, which would allow for a gradual loosening in the labor market, reduced wage pressures and slowing inflation, or if moderate job gains turn into job losses by early 2024. A soft landing for the economy is in sight, but the most likely outcome remains a mild recession starting in early 2024 as the economic drag of high interest rates continues to accumulate.

The August jobs report means the Federal Open Market Committee is likely to keep the federal funds rate in its current range of 5.25% to 5.50% when it meets on September 20. Inflation has slowed, although it remains well above the Fed's 2% objective, and the job market is softening. This gives the FOMC breathing room to determine if the aggressive tightening in monetary policy over the past couple of years is enough to bring inflation back to 2%, or if further rate hikes are needed to achieve that goal.

Please reach out with any questions.

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