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US Non-farm payrolls: Fed to hold as labour market continues to soften

by **Ali Jaffery** ali.jaffery@cibc.com

Employment change (thousands, unless otherwise noted)	Aug 23	Jul 23	Jun 23	May 23	Apr 23
Unemployment rate (%)	3.8	3.5	3.6	3.7	3.4
Avg. hrly earn all (Monthly % Chg)	0.2%	0.4%	0.4%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.5%	0.1%	0.7%	0.0%	0.4%
Nonfarm employment	187	157	105	281	217
Total private	179	155	86	255	179
Goods-producing	36	14	32	24	25
Construction	22	16	29	25	11
Manufacturing	16	-4	4	-4	9
Priv. Serv providing	143	141	54	231	154
Wholesale trade	5	18	-7	8	-2
Retail trade	6	13	-23	21	-2
Transp. & Warehousing	-34	-10	-19	19	-15
Information	-15	-15	-10	-4	3
Financial	4	17	2	13	27
Business services	19	-20	-1	45	48
Temporary help	-19	-24	-36	-7	-21
Education, health	102	102	79	88	77
Leisure, hospitality	40	32	26	28	11
Government	8	2	19	26	38
Federal Government	10	6	6	9	4

Source: Haver Analytics

- Much like the transition from summer's end to the fall, the August jobs report suggests the labour market too is showing a shift to even cooler temperatures. The unemployment rate ticked up three full notches to 3.8%, well above consensus expectations of 3.5%, and its highest rate since early 2022. Nominal wage growth slowed to 0.2% m/m, below expectations of 0.3% gain. Job gains rose to 187K, up from 157K the previous month, but negative revisions of 110K over the previous two-month job tally continue to suggest hiring is cooling. The participation rate ticked up two notches to 62.8% indicating that labour supply continues to gradually heal. Overall, today's report reinforces that rebalancing in the labour is picking up pace and we are zoning in on achieving the softening in labour market conditions the Fed has been looking for. We no longer expect the Fed to raise interest rates in September and expect them to hold for the rest of the year.

- Hiring rose modestly in the US in August with 187K jobs added. This was above the consensus of 170K but that was distorted due to significant downward revisions in the previous two months as noted above. Job growth is tracking around 1% at a three-month annualized rate. More than half of the gains are from the Education and Health Care sector (+102K). Hiring in this sector has likely been aided by investment from state and local governments that are flush with cash and growing demand in healthcare as insurance coverage has increased in 2023. But outside of this sector, there is a firmly weaker trend. Employment growth excluding education and health is 0.5% on a three-month annualized basis. In particular, we are seeing significant recent weakness in transportation/warehousing, information, and temporary help services. These sectors have seen multiple consecutive months of job losses.
- While the demand side of the labour market is showing clear signs of slowing with slowing wages and job gains, the supply-side of the labour market continues to firm as part of the broader rebalancing occurring. The headline participation rose two ticks to 62.8% as the prime-age (25-54 year old) participation rate picked up to 83.5%. Total hours worked rose 0.4%, rebounding from -0.2% from the previous month as average weekly hours nudged up. Average weekly hours worked are back in their pre-pandemic range and we believe around its long-run equilibrium.
- The household survey, which is more volatile and less reliable on a month-to-month basis, posted 222K jobs in August, and an increase of 514K in the pool of unemployed workers. The employment-to-population ratio stayed unchanged at 60.4%. The broader U-6 measure of unemployment, which accounts for those working part-time for economic reasons, rose by four ticks to 7.1%.

Implications & actions

Re: Economic forecast — The August labour market data is showing a faster pace of labour market softening with the unemployment rate ticking up materially and wage growth settling lower. The cooling trend in job hiring in the payroll survey also continued. We now expect the Fed to hold for the remainder of the year.

Re: Markets — Bond yields and the broad dollar both fell initially given the softness in the unemployment rate and wages.

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