



Economics

ECONOMIC FLASH!

economics.cibccm.com

September 3, 2021

US labor market shows symptoms of Covid in August

by **Katherine Judge** katherine.judge@cibc.com

Employment change (thousands, unless otherwise noted)	Aug 21	Jul 2021	Jun 2021	May 2021	Apr. 2021
Unemployment rate (%)	5.2	5.4	5.9	5.8	6.1
Avg. hrly earn all (Monthly % Chg)	0.6%	0.4%	0.4%	0.5%	0.7%
Avg. wkly hour all (Monthly % Chg)	0.6%	0.4%	0.1%	0.2%	0.7%
Nonfarm employment	235	1053	962	614	269
Total private	243	798	808	555	226
Goods-producing	40	64	42	16	-41
Construction	-3	6	-2	-24	-9
Manufacturing	37	52	32	36	-35
Priv. Serv providing	203	734	766	539	267
Wholesale trade	1	14	27	14.8	6.9
Retail trade	-29	-8	89	59.9	-22
Transp. & Warehousing	53	55	24	15	-54.9
Information	17	21	12	20	11
Financial	16	24	0	2	17
Business services	74	79	70	50	-79
Temporary help	-6	10	31	7.5	-122.3
Education, health	35	88	72	46	23
Leisure, hospitality	0	415	397	319	328
Government	-8	255	154	59	43
Federal Government	3	9	-7	-8	3

Source: Haver Analytics

- The stark deceleration in hiring in the US labor market in August makes a September tapering announcement from the Fed a much closer call, but this represents part of an only temporary detour to full employment. The 235K jobs created in August were well below the consensus expectation of 733K and reflected weakness in areas impacted directly by Covid, while modest hiring was seen in other sectors. The weakness coincides with the spread of the Delta variant which has resulted in a pullback in mobility indicators and a deterioration in consumer confidence, stretching

beyond the August survey's reference period. In what is likely to be a close call, the Fed may choose to delay the advanced warning of tapering to November, or tie its commencement to an improvement in the employment backdrop.

- The August data leaves a deficit of 5.3mn jobs relative to pre-pandemic levels, with one-third of those being in the leisure and hospitality sector that showed no progress in hiring in August. Hours worked for non-supervisory staff in that sector dropped by 0.3%, a sign that outright layoffs are more likely in the next month's jobs report. Retail trade, the other sector most directly impacted by Covid, shed 28K jobs while hours worked for non-supervisory staff fell by 0.5%. Total aggregate hours worked, important for the quarterly GDP forecast, are tracking a few decimals behind the Q2 pace when assuming that they flatlined in September.
- The concentration of hiring in higher-paying industries distorted the average hourly wage figures which showed 0.6% monthly growth. With Covid concerns mounting, it's likely that areas that previously experienced a labor shortage, namely leisure and hospitality, will see wage gains taper off for non-supervisory staff.
- The unemployment rate still ticked down to 5.2% as expected on a 509K gain in jobs in the household survey. The participation rate held steady at 61.7%. Although the expiration of the remaining unemployment benefit top-ups in early September was initially expected to boost participation, the spread of Covid and the deterioration in employment prospects could delay that for a few months.
- Surprisingly, state and local governments shed jobs despite receiving federal funds earlier in the summer. Together, those sectors are 800K jobs below pre-pandemic levels. However, it's likely that education payrolls within those levels of government receive a lift in September as school returns.

Implications & actions

Re: Economic forecast — We were already poised to pare back our H2 GDP growth forecast for 2021 and this adds to evidence in favor of such a move. Still, with a large percentage of the population vaccinated and booster shots on the way, we don't expect a deterioration as severe as seen during previous waves of Covid, and look for a reacceleration next spring when the current wave will be in the rear view mirror.

Re: Markets — The USD is trading lower following the disappointing report, but US yields have held their ground or risen in some cases (US 10-yr and 30-yr), as investors are still betting on a tapering announcement from the Fed before the year ends.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2021 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC