Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

Enough cooling within August jobs report to support Fed pause in September

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Executive summary:

U.S. payrolls in August added 187,000 jobs, just ahead of the consensus expectations of 170,000. But it was coupled with sizable downward revisions to the prior two months, knocking the six-month average down to 194,000 from 222,500.

It was accompanied by further signs of cooling, including the unemployment rate jumping to 3.8% and a dramatic cooling of wage gains. These are corroborated by other labor figures, such as the stepdown in job openings and the quit rate, and a spike in job cut announcements. The lone outlier is weekly jobless claims, which haven't budged.

While it isn't a "weak" jobs report by any metric, we believe labor market conditions are finally cooling enough to offer the Federal Reserve (Fed) the latitude to hold rates steady in September. That said, it's still possible additional rate hikes could be needed later this year if broader inflation trends don't cooperate.

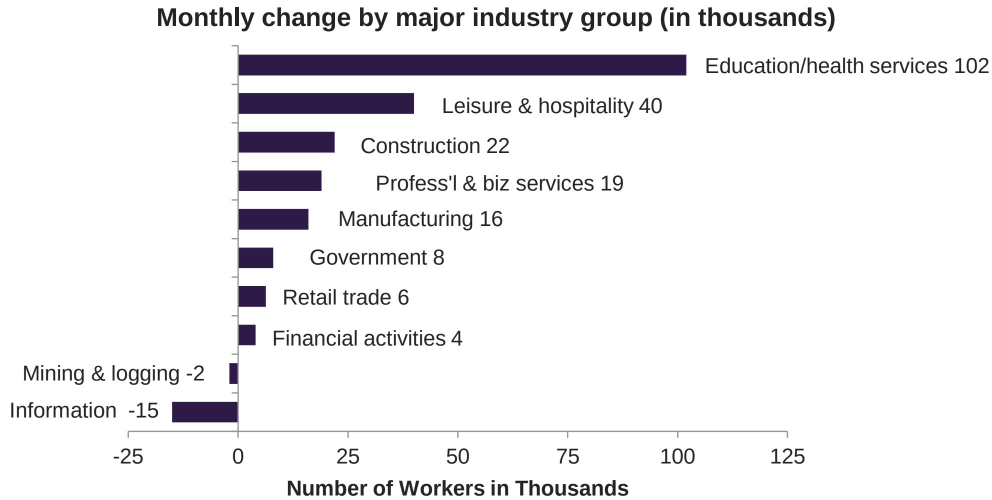
Component	August	Prior month	Six-month average	Comment
Change in payrolls	187,000	179,000	194,400	The pre-pandemic 3-year average was 177K/mo. Net revisions decreased the June and Jully tallies by 110K.
Unemployment rate (U-3)	3.8%	3.5%	3.6%	It's now 0.4 above the cycle low of 3.4%. An outsized 736,000 workers re-entered the workforce, the most in seven months.
Labor force participation rate	62.8%	62.6%	62.6%	Jumped to a 42-month high, snapping five straight months at 62.6%; still 0.5 percentage points below the Dec. '19 level.
Average hourly earnings (YoY)	4.3%	4.4%	4.4%	The monthly pace cooled to 0.2%, the smallest monthly rise in 18-months, which was the same rate for non-supervisory workers, slowest in 31-months.
Average weekly hours worked	34.4	34.3	34.4	It has held fairly steady in '23. Manufacturing hours stayed at 40.1 for a fifth month, while overtime hours also held steady.

Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

A review of the major industry trends

Private payrolls increased by 179,000, while government payrolls added just 8,000. Service-providing industries added 143,000 workers, while goods producers hired 36,000 workers.

Two of the major industry groups slashed payrolls during August.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Alas, truck giant Yellow ceased operations in August, which accounted for 36,700 jobs lost within truck transportation. Excluding trucking, there were 224,000 jobs created in August. But, that's not how the economy works. Those jobs will disperse to Yellow's many competitors in short order, but the negative impact to Yellow's employees is immediate and very acute.

Information lost 15,000 workers in August, the fourth straight monthly decline. The bulk were directly related to the twin Hollywood strikes (the writer and actor strikes) as the motion picture category slashed 17,000 jobs. The impacts of these work stoppages are spilling into support areas for non-union staff.

Within professional & business services, temporary help services lost 18,900 in August, the seventh month of cuts in a row for a total of 119,000 over that span. This is a red flag insofar as fewer temporary workers are generally a sign of weakness and vice versa.

On the positive side, manufacturing added 16,000, the largest gain in 10 months. Most were durable goods manufacturers – think autos, furniture, and appliances – which added 12,000 during the month.

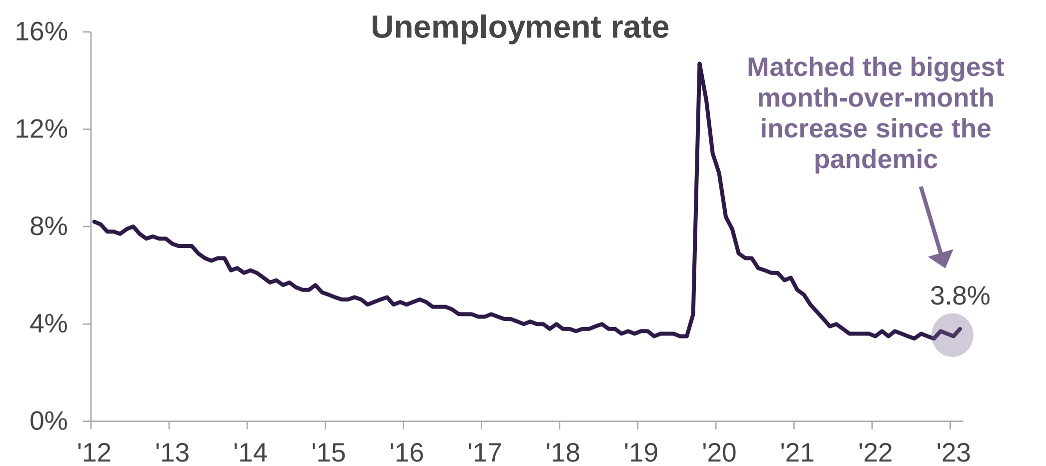
The remaining major industries largely maintained their current trends.

Unemployment rate flashes recession warning, while wage gains cooled

The unemployment rate rose by 0.3%, matching the largest month-over-month increase since the pandemic, to 3.8% in August. That's up 0.4 percentage points from the cycle low of 3.4%. More importantly, it is just shy of an increase of 0.5 percentage points, which is widely regarded as a recession flag. The broader underemployment rate (U-6) also jumped in August, to 7.1% from 6.7%.

Hours worked—officially known as average weekly hours worked for all employees—ticked up to 34.4, which is roughly in-line with the pre-pandemic 10-year average. Within manufacturing, hours worked held steady at 40.1 for the fifth straight month, while overtime hours stayed at 3.0 for the eighth month in a row. Both remain generally in-line with their respective long-term averages.

The unemployment rate jumped to 3.8%, the highest level since February '22.

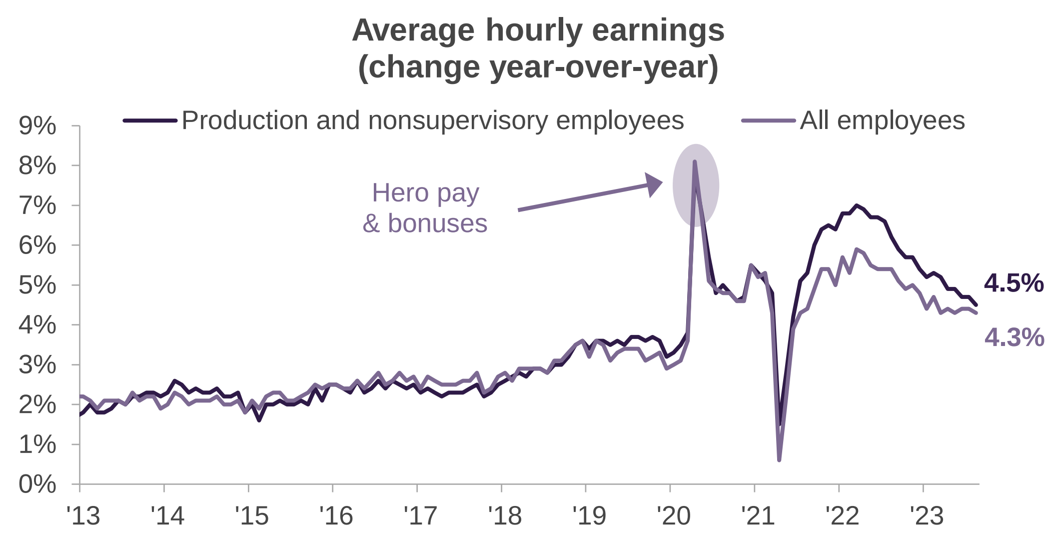


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Average hourly earnings rose 0.2% month over month in August, the smallest monthly growth in 18-months. That helped the annual rate slip to 4.3%, matching the slowest since June 2021, though it remains well above the pre-pandemic 10-year average of 2.4%.

The deceleration in average hourly earnings was also apparent for rank & file workers—officially known as production & nonsupervisory employees—up 0.2% during August, the smallest gain in 31 months. The annual pace slipped to 4.5%, well-above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic post-pandemic wage gains have been concentrated.

The monthly pace of average hourly earnings cooled to 0.2% in August, helping the annual rate to slip to the slowest since June 2021.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Our take

On its face, this was another solid jobs report – marked by job growth above the long-term average, an unemployment rate significantly below 5%, and wage growth still well-above the pre-pandemic trend. But within the broader context of the past few years, it showed a deceleration almost across the board.

Additionally, the revisions were significant; most notably, June's job growth was lowered to 105,000, which is essentially stall speed. That's barely enough to keep such a large economy afloat and the unemployment rate stable. A 100,000 per month is economic equivalent of the Mendoza line, a baseball term for when a major league player is typically sent down to the minors or released for having such a poor batting average. Furthermore, it's a danger zone for job growth, whereby outright job losses have often happened historically after crossing below 100,000.

These cooling trends were corroborated by other labor figures, such as the stepdown in job openings and the quit rate, and a spike in job cut announcements. The lone outlier is weekly jobless claims, which haven't budged.

As we mentioned last month, the so-called soft landing of the U.S. economy does appear possible. Yet, it also undercuts the soft-landing thesis – that the economy is resilient enough to avoid a recession, especially with the jump in the unemployment rate and headline job growth dipping near the Mendoza line. Naturally, some might say, "yes, June job growth slowed but it reaccelerated in July and August." To which our reply is – July and August haven't been revised yet. Lest we forget, June was quite literally cut in half to 105,000 from the originally reported 209,000. Again, most recessions initially look like a soft landing with very few exceptions (like 2020). The economic data cools and conditions look fairly stable until they don't.

It would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions. Many of the leading indicators are pointing downward and have been for more than a year. Moreover, most of the incoming economic data has been decelerating, not strengthening. That said, we don't anticipate a sudden collapse in economic activity and don't view the economy as overly weak. Regardless, it's certainly not as strong as many of the soft-landing bulls are projecting.

Ultimately, we believe labor market conditions have cooled enough to allow the Fed to continue holding rates steady in September, letting them assess the overall economy. While it's clearly cooler than the blistering pace of '21 and '22, inflation remains well above anyone's comfort level. At the very least, the Fed will need to maintain rates, though it's still possible additional rate hikes will be needed to curb inflation if price trends don't cooperate.

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