Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

More jobs, more pay again in July – likely means Fed can eventually take their foot off the gas sooner

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Executive summary: U.S. payrolls in July rose by 943,000, easily beating the consensus expectation of 865,000. Meanwhile, the unemployment rate dropped to 5.4% with a sizable increase in the labor force.

The reopening sectors—leisure & hospitality and education—continue to account for the bulk of the hiring. Of course, these industries had the deepest hole to dig out of as a result of the pandemic. We reiterate our caution that jobs metrics, particularly at the industry level, will remain choppy month to month in the near term.

In addition to the job gains, we see continued improvement in most activity-based indicators, reflecting strong economic growth. Accordingly, we anticipate that this next phase of the jobs recovery, marked with solid—albeit smaller—monthly gains, will continue to unfold over the next few months. Ultimately, this report supports our outlook for above-trend economic growth and our belief that peak economic growth does not mean weak growth. It should also let the Federal Reserve (Fed) begin gradually ramping down its monthly bond buying program sooner, perhaps in late 4Q2021 or early 2022, though it will await further confirmation.

Component	July	Prior month	Six-month average	Comment
Change in payrolls	943,000	850,000	661,000	Biggest monthly increase in 11 months, along with strong upward revisions of 119K for the May and June tallies.
Unemployment rate (U-3)	5.4%	5.9%	5.9%	The labor force rebounded after a dip in May. But there are 6.8 million fewer workers compared to the pre-pandemic level.
Labor force participation rate	61.7%	61.6%	61.6%	Workforce rose to 161.3 million. Also, large drop of 572K in the number of people categorized as “on temporary layoff” to 1.2M in July from the high of 18.0M in April 2020.
Average hourly earnings (YoY)	4.0%	3.7%	3.2%	Big jumps in June and July, and is well above the average of 3.3% during 2019.
Average weekly hours worked	34.8	34.8	34.8	June hours worked revised upward. Manufacturing hours jumped to match its highest level in 17 months.

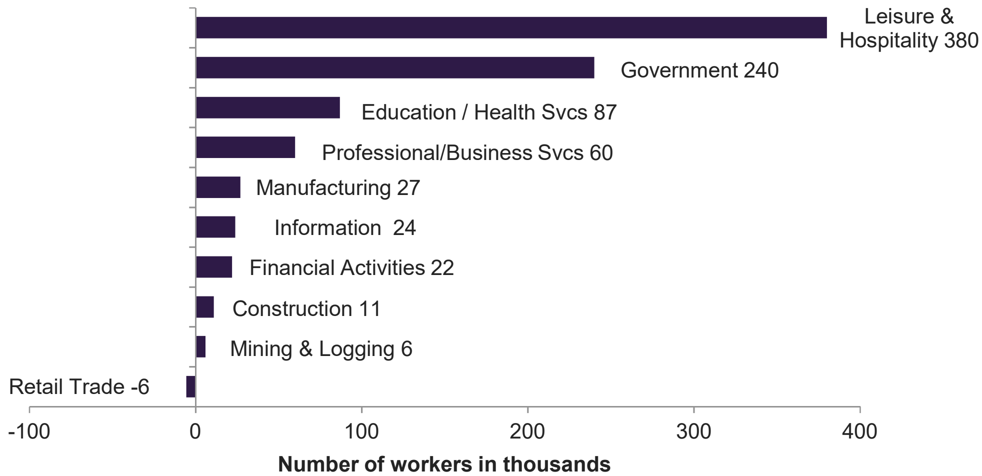
Data Source: Truist IAG, Bloomberg, Bureau of Labor Statistics.

A review of the major industry trends

Private payrolls in July increased by 703,000 workers, down from 769,000 in June, but governments hired 240,000, which were mostly educational positions. Service-providing industries added 659,000 positions, while goods producers chipped in 44,000 workers.

Gains within goods-producing industries remain a bit sluggish.

Monthly change by major industry group (in thousands)



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

The two segments—leisure & hospitality and education—most impacted by the pandemic continue to see the largest increases.

Within leisure & hospitality, restaurants and bars hired 253,200, roughly two-thirds of the segment's total gains during July. Payrolls at amusement, gambling, and recreational facilities increased by 40,200 workers, while hotels added 73,700. Leisure & hospitality payrolls remain down 1.7 million, or 10.3% below, compared to pre-pandemic levels.

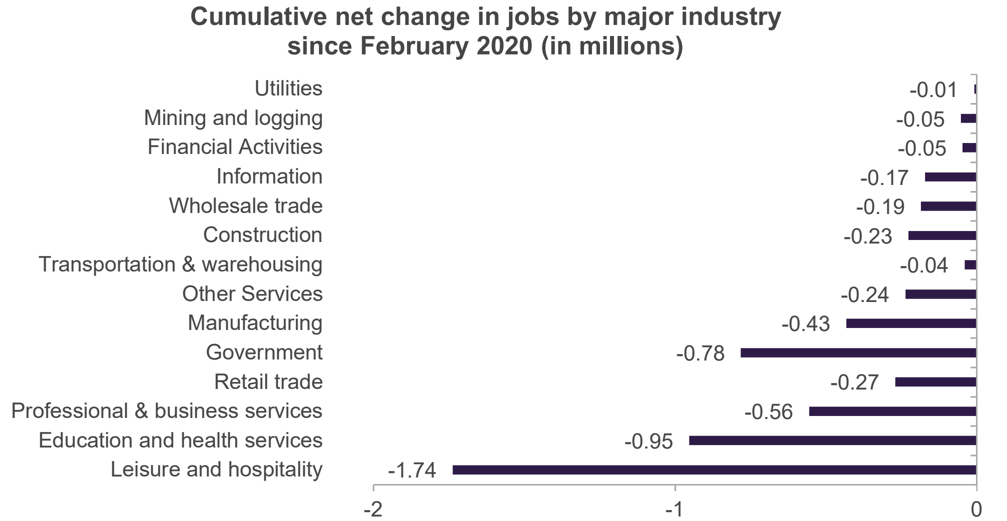
Educational jobs were a significant contributor for the third month in a row, adding 271,000 in July. Within government, most of the job gains were local educational positions, up 221,000. Private education, which is categorized with education & health services, added 40,000 positions during the month. The balance were state-level educational positions.

Construction added 11,000 jobs, snapping a three-month decline. Most were on the residential side, though commercial specialty contractors also logged gains. Those more than offset losses by commercial construction and heavy & civil engineering firms.

However, retailers lost 6,000 workers. There was a wide disparity between sub-industries as hiring by some were more than offset by losses elsewhere. For instance, there were sizable gains in gasoline, electronics & appliance, and clothing stores. Meanwhile, there were outsized decreases by building materials & garden supply stores. These are likely long-term trends, including the continued shift to online shopping, along with seasonal patterns.

We reiterate our caution that the industry-level results will remain choppy month to month in the near term, reflecting the unevenness of the global recovery and renewed localized restrictions in parts of the U.S., particularly in Delta variant hotspot states.

Now 11 of the 14 major industries have essentially recovered (within 5%) the jobs lost during the pandemic.

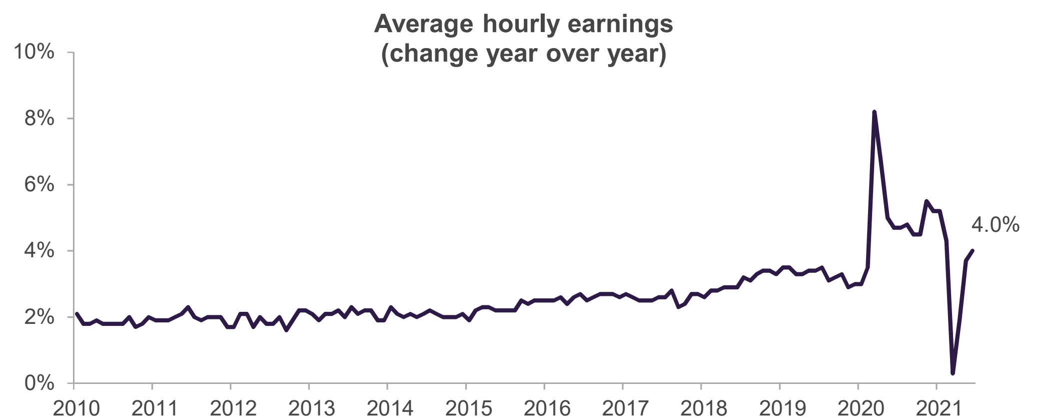


Data Source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Strong wage and income growth

Wage and income growth continued to accelerate during July. Average hourly earnings increased 4.0% from a year ago, which is above the 2019 average of 3.3% and well-above the 2.4% average for the decade before the pandemic (2009 through 2019). The May and June rates were also revised higher.

Average hourly earnings are up 4.0% from a year ago, well above the 2019 average of 3.3%.



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

The large spike last year was primarily caused by so-called hero pay for front-line workers and pandemic-related bonuses that many employers used to entice workers. Most of those programs have expired in 2021 (hence the large decline earlier this year), though some are still giving bonuses for vaccinations, while a few have maintained hero pay.

More importantly, there was a big jump in average hourly earnings for production & nonsupervisory employees, up 4.7% year over year after a rocky spring and above the 3.6% rate averaged during 2019. That's also above the 4.0% average hourly earnings pace for all employees (shown above). In other words, this wasn't a case of increases for higher paid workers accounting for most of the wage gains.

Bottom line

This was another very strong employment report by nearly any measure – more jobs, more pay. It included strong prior-month revisions and improvements in hours worked, especially within manufacturing.

In addition to the job gains, we see continued improvement in most activity-based indicators, reflecting strong economic growth. Accordingly, we anticipate that this next phase of the jobs recovery will continue to unfold over the next few months, marked with solid monthly gains, though they will likely begin to step lower in size. Frankly, we can't expect the nearly one million job gains per month achieved during June (938,000) and July (943,000) to be repeated.

Looking ahead, continued employment strength in the coming months also likely means the Fed can begin gradually ramping down its monthly bond buying program sooner, perhaps in late 4Q2021 or early 2022. Nonetheless, the Fed will await that continued employment strength before committing to any changes.

Ultimately, this report supports our outlook for above-trend economic growth and our belief that peak economic growth does not mean weak growth.

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