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Instant Analysis of Today's Employment Report for August

Job Creation Downshifts in August; +142K vs. Consensus Exp. +230K
August Job Growth Disappoints; Weaker Than Other Indicators Suggested
June and July Job Numbers Revised Down a Net -28K
Unemployment Rate falls to 6.1% as Labor Force Participation Rate Drops to 62.8%
Construction, Manufacturing, Retail, Financial, Information Sector Hiring Downshifts
Business Services (+47K), Ed & Health (+37K), Leisure & Hospitality (+15K)
Retail Trade (-8K), Manufacturing (+0K), and Construction (+20K)
Household Survey Weakens- HH Employment (+16K)
Hourly Earnings Increase +0.2% in August; Avg. Hours Worked Steady at 34.5
Market Reaction to Payroll Report; Stocks Slightly Lower 10-Yr Treasury Yield Slips to 2.41%

The August jobs report was a buzz-kill this morning. The labor department reported only +142K net nonfarm jobs were created last month, about 88K jobs short of my expectations. The rationalizing begins with analysts pointing out that seasonal adjustment is very difficult in the month of August and historically large upward revisions occur in subsequent months. This is all true. The other reason to look at this morning's payroll number with a fair amount of skepticism is that it is inconsistent with all the other economic releases, labor market related or otherwise, that we track on a monthly basis. The ADP jobs report that track private payrolls, initial jobless claims, consumer confidence, and ISM Purchasing Manager surveys from both manufacturing and services businesses suggest a much more vibrant labor market recovery is underway in the United States.

But some of the pieces from this morning's report don't quite fit into this mold. What about the 28K net downward revision for June and July? And the even larger slowdown in the household employment survey in recent months? Household employment increased only 16K in August, according to the Labor Department. So while I do believe the numbers released this morning can be taken with a large grain of salt and we can expect upward job revisions down the road, the data do reinforce the still fragile, stop and start nature of our labor market recovery. Given the downside risks coming from abroad, it probably pays to remain cautious. We do expect real GDP growth to downshift in Q3 to around 3.1 percent annualized from 4.3 in Q2. Some cooling of job creation would make sense in this context.

By sector, we saw job growth slow for construction, manufacturing, and financial services last month, while net jobs were lost in retail trade and information sectors. In contrast, job creation picked up in business services, education and health, leisure and hospitality, and government sectors.

The U.S. unemployment rate fell, in-line with our expectations, to 6.1 percent in August from 6.2 percent in July. The labor force dropped by 64K and the labor force participation rate slipped to 62.8 percent. Not much sign here of discouraged workers re-entering the labor force. On a brighter note, the average duration of unemployment fell again to 31.7 weeks from 32.4 weeks in July.

The earnings data was also in-line with our expectations, suggesting steady income growth continues. Average hourly earnings increased 0.2 percent in August and the year-on-year gains improved to 2.1 percent. While avg. weekly hours held steady at 34.5 hours. We are looking for stronger earnings gains as slack in the labor market dissipates.

Bottom-line, another mixed and confusing employment report this month. The report still fits with our 3.0 percent growth outlook for the U.S. economy. It does give the doves on the FOMC some more cover to keep rates on the floor a little longer, and makes the hawks case to act sooner on interest rates a much harder argument to make. Overall it match's well with the FOMC's description of the current labor market. Markets reacted modestly to this employment report, stocks opened slightly lower, the 10-year Treasury yield slipped to 2.41 percent from 2.45 percent, and the U.S. Dollar weakened.