# Employment report August 2024

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## Softening, but not collapsing job market points to gradual Fed easing

- The combination of moderate job growth in August, rebounding hours worked and a lower unemployment rate confirmed that the labor market did not fall off a cliff. Yet, large downward payrolls revisions pushed the more reliable three-month average payrolls gauge to a new post-pandemic low — pointing to a material softening in employment.
- The economy added 142,000 jobs in August, below consensus expectations for a 165,000 gain, with private-sector payrolls expanding 118,000 while government payrolls rose 24,000. Over the past three months, payrolls have expanded at a below-trend average pace of 116,000, down from 207,000 in the first half of 2024 and the slowest since June 2020. Job growth was still heavily concentrated with health care, leisure and hospitality and government payrolls accounting for 80% of the total payrolls advance.
- Job growth within the goods sector slowed in August with only 10,000 jobs added as robust employment gains in construction more than offset a 24,000 plunge in manufacturing payrolls. Meanwhile, services sector payrolls showed moderate momentum, rising 108,000 with leisure and hospitality and health care accounting for over 80% of services employment gains while retail trade and information shed jobs.
- The unemployment rate edged slightly lower to 4.22% in August from 4.25% in July, but it remains well above its post-pandemic low of 3.4% in April 2023. While the recent uptrend is concerning and points to a pickup in layoffs, it also partly reflects the fact that more people have been entering the labor force and joining the ranks of the unemployed.
- The labor force participation rate remained steady at 62.7%, slightly below its cycle high of 62.8% reached in late 2023. The participation rate for prime-age workers (those ages 25 to 54) fell slightly from 84% to 83.9%, though it remains at its second-highest level since March 2001. The strong rebound in immigration post-pandemic has acted as a powerful catalyst in cooling the labor market and tempering wage growth.
- On the wage front, average hourly earnings increased 0.4% month over month (m/m) with wage growth ticking back up from 3.6% to 3.8% year over year (y/y). Importantly from a Fed perspective, robust productivity momentum continues to drive non-inflationary economic growth in a rebalanced labor market. With productivity growth hovering around 2.5% to 3.0%, wage growth at 3.8% is arguably below the pace consistent with 2% inflation (2% inflation + 2.7% productivity in Q2 = 4.7% wage growth).

- Overall, today's jobs report did not show the type of broad-based labor market weakness that could have led the Fed to implement a 50 basis points (bps) rate cut at the September Federal Open Market Committee meeting. While the most dovish policymakers will likely point to the downward revisions as a sign of "unwelcome" cooling, the consensus will likely lean toward a methodical 25bps rate cut on September 18 and a steady pace of easing thereafter. We foresee three Fed rate cuts before year-end, with 25bps rate cuts in September, November and December.

## In the details

Private employment rebounded modestly in August with a 118,000 gain following a downwardly revised 74,000 increase in July. Job growth was also a little more broad-based with the employment diffusion index — a measure of how many private-sector industries are adding jobs — rising to 53% after reaching its lowest level outside of the pandemic recession since early 2010. The three key engines of job creation — health care, leisure and hospitality, and government — continued to drive job growth in August. Together, they added a total of 114,000 jobs last month.

The health care and social assistance sector continues to add jobs at a solid pace, but job growth in the sector is visibly cooling. Employment in the sector rose by a robust 44,000 last month, below the 67,000 average monthly pace over the prior three months. The moderation in August was led by slower hiring by hospitals (+10,000) and a decline in employment at nursing and residential care facilities (-2,000). Employment in the leisure and hospitality sector also saw a sturdy 46,000 increase in payrolls following a 24,000 gain in July. Within leisure and hospitality, the advance was mostly driven by a 30,000 increase in employment at food and drinking places in a sign of resilient services activity.

In contrast, employment of educational workers only rose by 3,000 in August and has been muted so far this year. In August, there were 5,000 fewer educational workers than at the start of the year. Meanwhile, employment in the retail sector rose by only 4,000 as slower consumer demand and a more cautious stance from retailers are curbing hiring efforts. The finance (+11,000), professional and business services (+8,000) and transportation (+8,000) sectors saw modest gains while the retail sector (-11,000) saw a third consecutive contraction in payrolls.

On the goods front, the 10,000 advance in employment was entirely driven by stronger construction employment, which climbed by 34,000 and more than offset the weakness in manufacturing payrolls, which fell by 24,000. Factory hiring has remained sluggish over the past year as soft global activity, tight lending standards and still high real interest rates continue to weigh on the sector.

Government employment made a moderate 24,000 contribution to the overall employment gain, the strongest gain since March 2024. This was led by a 22,000 increase in local government employment.

Looking ahead, the slowdown in labor market conditions is poised to continue as softer consumer demand, reduced pricing power and lower profitability weigh on hiring and wage increases. Against this backdrop, job growth will likely maintain a below-trend pace over the course of the year with employers expected to add an average of 100,000 jobs per month in H2 while the unemployment rate is expected to gently rise toward 4.5% by year-end.

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