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Economics Group

Sarah House, Senior Economist
sarah.house@wellsfargo.com • (704) 410-3282

Slower Hiring in August Suggests More Fed Easing

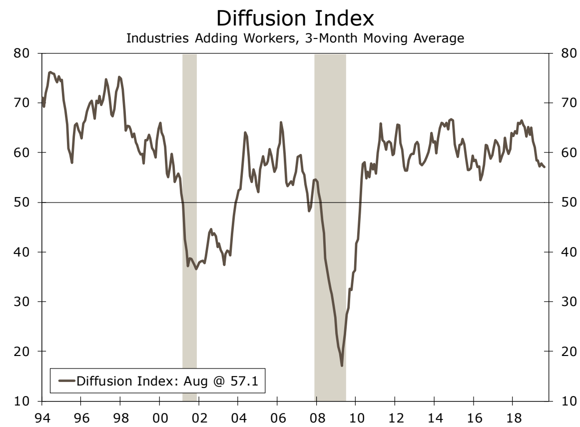
Even with a 25K bump from Census hiring, employment growth slowed to 130K in August. The pickup in wage growth and steady unemployment rate are unlikely to deter the Fed from a 25 bps cut this month.

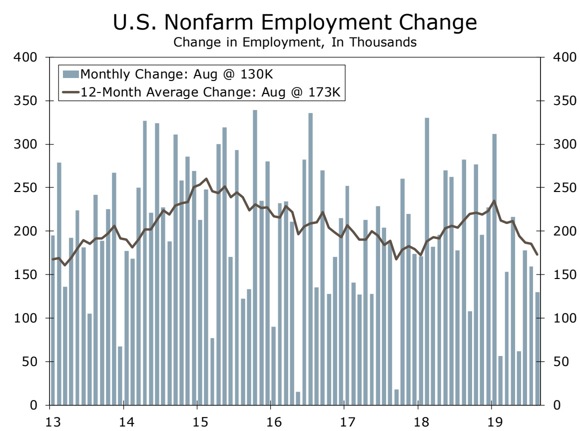
Weaker Job Growth Overshadows August's Pickup in Wages

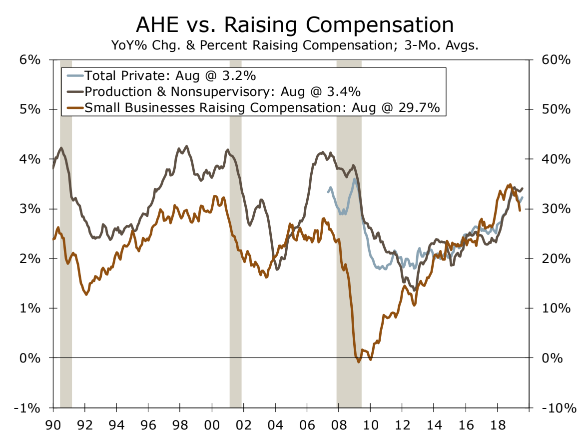
Although there were a few good numbers in the August employment report, including stronger wage growth, rising labor force participation and a rebound in the average workweek, a broad slowdown in hiring cannot be ignored (top chart). Employers added a total of 130K new jobs, but only 96K of those were in the private sector. Preliminary operations for the 2020 Census led to the hiring of 25,000 temporary federal workers, flattering the headline and likely the 0.2-point gain in labor force participation. Revisions to the prior two months' data were negative as well (net decline of 20K), although admittedly the history of August revisions offers some optimism that hiring was not as weak as the ex-Census figures indicate. Over the past five years, August payrolls have been revised up an average of 41K jobs, more than any other month.

Even with the potential for upward revisions, today's report underscores weaker hiring since the start of the year (middle chart). The preliminary estimate of the annual benchmark revision, which will be finalized with the January 2020 figures, indicates there were half a million fewer jobs created in the 12 months through March of this year. That is the largest downward revision since 2009 and suggests the 12-month average pace of job growth had already slowed to 168K by March, versus the currently reported 210K. As a result, hiring in recent months has not slowed as abruptly as current published figures indicate, but has slowed nonetheless. The pullback in private sector hiring in recent months has included some of the most trade-sensitive industries like manufacturing, transportation & warehousing and retail, but has also included education & health, information and other services.

More encouraging was the 0.4% rise in average hourly earnings, although following a similar gain last August, the year-over-year change edged down to 3.2%. Wage growth has been struggling to break out of its recent range, a battle that is likely to continue (bottom chart). Yes, the labor market remains tight and stronger productivity growth gives some scope for companies to offer higher wages without cutting into profits. However, the job opening rate has edged lower over the past year, while the share of small businesses raising compensation has rolled over since 2018. The weakening is unlikely independent of the trade war. Companies in the crosshairs with limited pricing power are looking for cost savings anywhere. Eliminating employee raises is likely to be part of an "all of the above" approach to surviving a trade war. Along with slower hiring, a plateau in average hourly wage growth points to income growth moderating in the coming months. That makes the gamble on consumer spending carrying the economy through the trade war riskier on balance. Overall consumer fundamentals remain in good shape, but we expect the FOMC to cut the fed funds rate another 25 bps at its meeting later this month to offset the lingering headwinds on the economy stemming from slowing global growth and trade policy uncertainty.







Source: U.S. Department of Labor, NFIB and Wells Fargo Securities

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com