Solid Underlying Employment Numbers Counter-Balance a Weaker Headline

On the surface, the August labor report was clearly a disappointment. Nonfarm payrolls grew by just +130k, with 25k of those jobs being temporary government 2020 census workers. Prior month revisions subtracted -20k from the June/July count which pulled the three-month average down to +156k. The manufacturing sector added just +3k new jobs, while -4k mining jobs and -11k retail jobs disappeared last month. If these numbers told the whole story, bond yields might have retreated back to levels from earlier in the week, but so far, the bond market is flat on the day. The reason is that the separate household survey painted a brighter picture.

The labor market participation rate rose from 63.0% to 63.2%, matching a six-year high, as +571k Americans entered (or reentered) the workforce in August while +590k reported that they’d found work. As a result, the headline unemployment rate actually dipped from 3.71% to 3.69%, very close to the 50-year low. The worker-to-population ratio climbed from 60.7% to 60.9% as more Americans went to work in August. And, the tight labor market appears to be nudging wages higher as average hourly earnings rose by +0.4%, the fourth straight month of solid gains.

The bottom line seems to be that employment conditions remain firm, and as long as people have jobs they’ll spend money, which will continue to grow the economy…albeit at a slower pace. At this point, a few cracks are appearing in the U.S. economy but the Fed is responding. The question is…how aggressive does the Fed need to be? Today’s mixed, but generally weaker numbers support a 25 basis point cut on September 18th, with additional moves dependent on how future data shakes out.

Stocks opened higher in early trading as investors determined the payroll miss will keep the Fed on the easing track for the September FOMC meeting. Over the past 30 minutes, some of the equity rally has been lost as investors conclude the stronger underlying labor numbers mostly counter-balanced the weaker headline.

Yesterday’s cautiously optimistic tone is still in place.

Please see disclosure on page 2.
Market Indications as of 9:45 A.M. Central Time

DOW          Up 71 to 26,798 (HIGH: 27,359)
NASDAQ       Up 7 to 8,123 (HIGH 8,330)
S&P 500      Up 4 to 2,986 (HIGH 3,026)
1-Yr T-bill  current yield 1.74%; opening yield 1.75%
2-Yr T-note  current yield 1.54%; opening yield 1.53%
5-Yr T-note  current yield 1.43%; opening yield 1.43%
10-Yr T-note current yield 1.57%; opening yield 1.56%
30-Yr T-bond current yield 2.04%; opening yield 2.05%

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