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Labor Conditions Continue Improving as Government Support Fades

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The August employment report from the Bureau of Labor Statistics (BLS) was better than expected with the headline unemployment rate tumbling from 10.2% to 8.4%, well below the 9.8% median forecast. The household survey, which provides data for the unemployment calculation, showed 3.8 million finding work last month with another +968k entering the workforce. Apparently, the $600 per week federal benefit, which expired at the end of July, prompted a significant number of Americans to seek employment in August.

The number of unemployed persons in the U.S. fell by 2.8 million to 13.6 million in August, but the number of Americans not in the labor force who currently want a job is estimated at 7 million. These folks are technically not included in the labor force and not counted among the unemployed. The broader U6 measure, or "underemployment rate," which includes those working part time but preferring full-time employment, along with those not currently looking for work but willing to accept a suitable position if offered, fell from 16.5% to 14.2%. There are dozens of labor market measuring sticks, but the employment-to-population ratio, a key number that typically doesn't usually make headlines, rose by 1.4% to 56.5% in August. This percentage of working-age Americans who are actually employed, remains well below the 61.1% level from February.

In the separate business survey, another 1.4 million jobs were added back to company payrolls last month. At this point, 10.5 million jobs have returned , almost half of the 22 million jobs lost in March and April. Roughly a quarter of the jobs returning in August were government employees, including another 238k temporary census workers. Surprisingly, local governments added 95k to the count. Other sectors making significant contributions to the payroll count last month were retail (+249k), business and professional services (+197k) *…although 107k of these were temporary help services,* leisure and hospitality (+174k), and health and education (+147k).

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Another bright spot was rising wages. Average hourly earnings rose by +0.4% in August to $29.47 following a revised +0.1% gain in July. On a year-over-year basis, average earnings are increasing at a 4.7% rate for the second straight month. Since the pandemic began, the average earnings rate has spiked, peaking at +8% year-over-year in April. However, this reflects the fact that higher-earning professional workers have largely held onto their jobs, while lower wage earners have been sidelined.

In recent months, the BLS has gathered additional pandemic-related information to better understand the evolving workplace. Among the more interesting observations were:

- 24.3% of employed persons teleworked in August, down from 26.4% in July.
- 24.2 million Americans were unable to work or worked fewer hours because their employer closed due to the pandemic, down from 31.3 million in July.
- 11.6% had received at least some pay from their employer for hours not worked.

In related news, 45 states have now been approved to receive an extra $300 in weekly unemployment benefits to assist Americans who lost jobs or had wages cut as a result of the pandemic. This federal supplemental benefit will be in effect for at least three weeks.

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Please see disclosure on page 2.

The bottom line is that today's labor report indicates Americans are indeed returning to work at a faster pace than predicted. The FOMC will no doubt be revising its +9.3% year-end unemployment forecast lower at its September meeting, and consumer confidence is likely to move higher given the more upbeat labor market assessment. However, a number of major companies, supported for months by the Paycheck Protection Program, announced layoffs this week, including American Airlines (19,000), United Airlines (16,000) and MGM hotels (18,000).

Present conditions have improved, but as of August 14th there were still 29.2 million Americans receiving either state or federal unemployment benefits, according to the Department of Labor. The timeframe of these benefits is limited, while the recent labor market improvement isn't a good argument for extending. In the absence of continued government support, the economic outlook is less certain.

Market Indications as of 11:10 A.M. Central Time

DOW	Down 458 to 27,834 (HIGH: 29,551)
NASDAQ	Down 295 to 11,163 (HIGH: 12,056)
S&P 500	Down 61 to 3,394 (HIGH: 3,581)
1-Yr T-bill	current yield 0.12%; opening yield 0.11%
2-Yr T-note	current yield 0.14%; opening yield 0.13%
5-Yr T-note	current yield 0.28%; opening yield 0.25%
10-Yr T-note	current yield 0.69%; opening yield 0.64%
30-Yr T-bond	current yield 1.44%; opening yield 1.36%