

Yields Rise on Solid Payroll Gains

U.S. companies added +943k jobs to payrolls in July, topping the +870k median forecast, while the June payroll count was revised upward from +850k to +938k. After two solid months of gains, total nonfarm payrolls have now returned all but 5.7 million jobs shed during last years' shutdown. Unless this forward progress is derailed by the unsettling Delta spread, analysts expect both August and September payrolls will be strong as students return to in-person school, freeing parents to reenter the labor force.

Federal unemployment benefits (including weekly supplemental benefits) are scheduled to end on Labor Day (Sept 6) for states that haven't already opted out. The termination of this program is expected to drive more Americans into the labor force in the coming months. It's important to remember that even if payrolls return to pre-pandemic levels early in 2022, we will have experienced full two years without actually adding jobs to the count. So, there's still quite a bit of ground to make up.

Leisure and hospitality jobs increased by +380k in July, but remain more than -10% below the pre-pandemic level from February 2020. Manufacturing added +27k jobs in July on the heels of a revised +39k gain in June. Government jobs rose by +240k, with 221k of these in local government education as teachers and administrators were hired in preparation for the new school year.

In the separate household survey, 261k Americans began job searches in July, while 1043k reported finding work. This combined to push the headline unemployment rate down from 5.9% to 5.4%, the lowest since March 2020. However, the unemployment rate only includes those actively looking for work, and millions are still on the sidelines. The BLS reported the number of Americans not included in the labor force but still wanting a job was 6.5 million, 1.5 million above the pandemic count. The number of people saying they were unable to work because their employer closed or lost business due to the pandemic dropped from 6.2 million to 5.2 million in July. This is still an enormous number reflecting the long-term damage the virus has caused. Although the labor market participation rate rose from 61.4% to 61.7% last month, it remains 1.7 percentage points below where it was in January 2020.

Average hourly earnings climbed by +0.4% in July, while the June increase was revised upward from +0.3% to +0.4%. On a year-over-year basis, average hourly earnings have risen +4.0%. This number would be considerable higher if earnings were not so elevated in July of last year. Clearly, employers are paying more to attract and retain workers, and in the midst of a severe labor shortage, this practice will continue.

Overall, the July employment report was solid across the board. Fed officials are focused on a return to full employment, and this report indicates considerable forward progress toward this goal. As a result, the markets now expect the Fed to

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begin tapering QE purchases a bit earlier. In response, bond prices have moved lower in early trading, nudging market yields higher.

Market Indications as of 9:51 A.M. Central Time

DOW	Up 116 to 35,181 (NEW HIGH)
NASDAQ	Down 80 to 14,815 (HIGH: 14,895)
S&P 500	Up 8 to 4,437 (NEW HIGH)
1-Yr T-bill	current yield 0.07%; opening yield 0.06%
2-Yr T-note	current yield 0.21%; opening yield 0.20%
3-Yr T-note	current yield 0.40%; opening yield 0.38%
5-Yr T-note	current yield 0.76%; opening yield 0.73%
10-Yr T-note	current yield 1.29%; opening yield 1.22%
30-Yr T-bond	current yield 1.93%; opening yield 1.86%

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