Bond Yields Lower Despite Solid Labor Report

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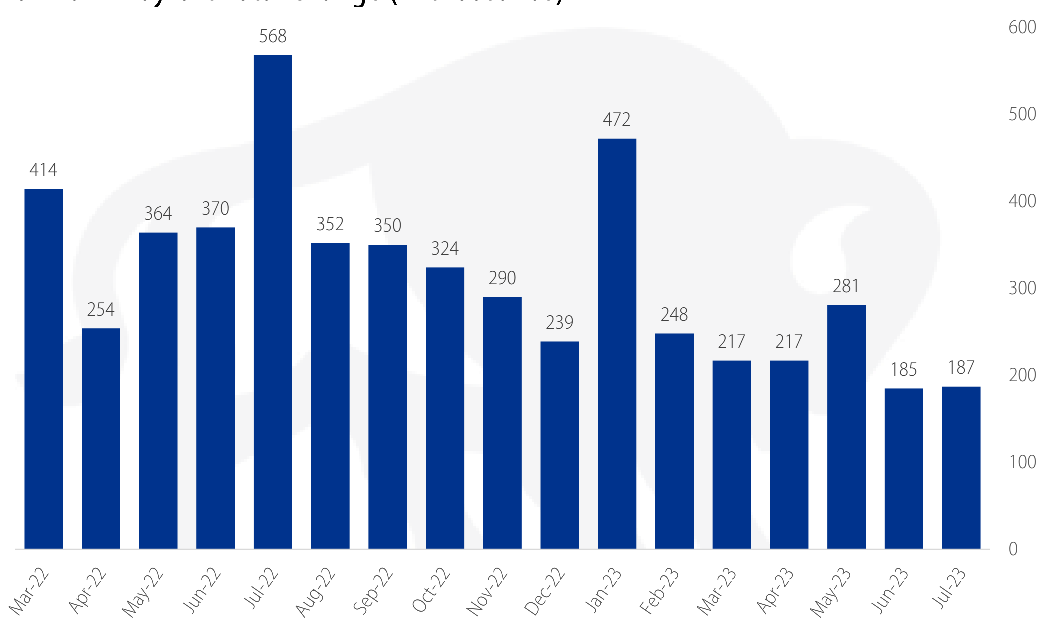
U.S. businesses added +187k jobs to company payrolls in July, slightly below the +200k median forecast, while prior month revisions subtracted another -49k. Unfortunately for Fed policymakers, the apparent softening in payroll growth was overshadowed by a drop in the unemployment rate and a rise in wages.

The separate household survey showed +268k Americans found work last month, while just +152k entered the labor force. This combined to drive the headline unemployment rate down from 3.6% to 3.5%, *now back within a tenth of a 53-year low*.

The number of unemployed Americans who have reportedly looked for work in the past month fell slightly to 5.8 million, while another 5.2 million had not sought employment in the last 30 days …but would nevertheless like a job. The labor force participation rate remained anchored at 62.6% for the fifth straight month, still frustratingly below the pre-pandemic level of 63.4%.

Hourly earnings rose +0.4% for the second straight month, topping the +0.3% median forecast. On an annual basis, wage growth held steady at +4.4%, above the +4.2% median forecast and signaling that continued tightness in the labor market is forcing employers to pay more to find and retain workers.

Non-Farm Payrolls Total Change (in thousands)



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Source: Bureau of Labor Statistics

The healthcare sector was the biggest contributor last month, adding +63k jobs to the total payroll count. Other notable increases were found in social services (+24k), construction (+19k), and leisure and hospitality (+17k). Payrolls dropped in professional and business services (-8k) and manufacturing (-2k).

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Monthly job growth is now averaging +293k over the first seven months of 2023, but just +217k since May. It's clear that labor strength is waning, but the huge gap between available jobs and jobseekers continues to stoke wage pressure. On the whole, this morning's report leaned to the strong side. Rising wages and historically low unemployment will keep the Fed on alert, but the lower-than-expected payroll count should allow the FOMC to hold rates steady at the September meeting.

Bond yields are lower in early trading as the futures market now indicates a slim 15% chance of a final 25 basis point hike on September 20th.

Market Indications as of 9:20 A.M. Central Time

DOW	Up 88 to 35,304 (HIGH: 36,800)
NASDAQ	Up 39 to 13,999 (HIGH: 16,057)
S&P 500	Up 4 to 4,506 (HIGH: 4,797)
1-Yr T-bill	current yield 5.35%; opening yield 5.35%
2-Yr T-note	current yield 4.78%; opening yield 4.88%
3-Yr T-note	current yield 4.47%; opening yield 4.57%
5-Yr T-note	current yield 4.17%; opening yield 4.29%
10-Yr T-note	current yield 4.09%; opening yield 4.18%
30-Yr T-bond	current yield 4.25%; opening yield 4.30%