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July Employment Report

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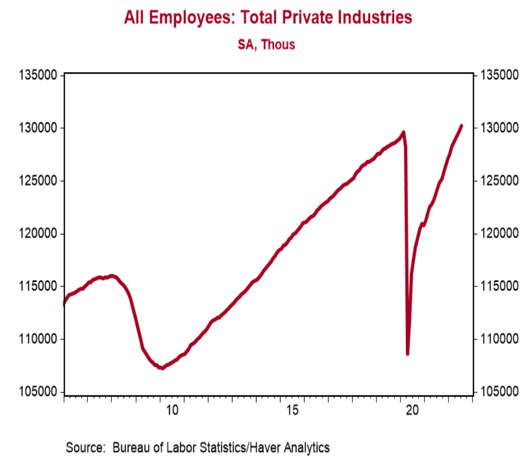
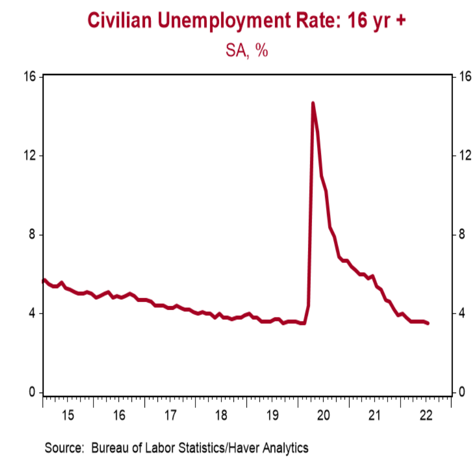
- Nonfarm payrolls increased 528,000 in July, easily beating the consensus expected 250,000. Payroll gains for May and June were revised up by a total of 28,000, bringing the net gain, including revisions, to 556,000.

- Private sector payrolls rose 471,000 in July and were revised up 18,000 in prior months. The largest increases in July were for education & health services (+122,000), leisure & hospitality (+96,000), and professional & business services (+89,000, including temps). Manufacturing increased 30,000 while government rose 57,000.

- The unemployment rate declined to 3.5% in July from 3.6% in June.

- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.5% in July and are up 5.2% versus a year ago. Aggregate hours increased 0.4% in July and are up 4.1% from a year ago.





Implications: No sign of a recession in the labor market. Just the opposite: the job market was very strong in July. Nonfarm payrolls rose 528,000 for the month, easily beating not only the consensus expected 250,000 but also the forecast from every economics group. It's taken 29 months, but nonfarm payrolls are finally higher than they were pre-COVID. The service sector continues to lead the way, with the fastest gains for education & health, leisure & hospitality, and professional & business services. However, manufacturing payrolls rose 30,000 in July, the fifteenth consecutive monthly gain. Meanwhile, the unemployment rate has finally returned to the pre-COVID low of 3.5%. The decline in the unemployment rate versus June was due to a combination of a 179,000 gain in civilian employment (an alternative measure of jobs that includes small-business start-ups) as well as a 63,000 decline in the labor force. That dip in the labor force shows the report was not 100% pure good news. Another problem is that although wages are rising they are not keeping pace with inflation. Average hourly earnings rose 0.5% in July and are up 5.2% versus a year ago, which would be good news if inflation were where it was pre-COVID. However, the CPI was probably up 8.8% in July versus a year ago, so "real" (inflation-adjusted) wages are falling even as nominal wage growth is solid. Total hours worked rose 0.4% in July and are up 4.1% in the past year. The key to keep in mind is that although the US is not in a recession yet, this doesn't mean the US won't fall into one sometime in the next couple of years. Overly loose monetary policy has generated an inflation problem that's worse than any we've had in four decades. Although the Federal Reserve has raised short-term rates to 2.375%, it still isn't focused on consistently limiting the growth of the M2 measure of money, which was the ultimate source of the problem. In turn, this means, the Fed is likely to keep raising short-term rates and do so more than the markets currently expect. Eventually the Fed needs to get tight to bring down inflation and, with a lag, that tightness will cause a recession. But that recession hasn't started already and is unlikely to start this year.

Employment Report *All Data Seasonally Adjusted*	Jul-22	Jun-22	May-22	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**3.5**	3.6	3.6	3.6	3.6	4.0
Civilian Employment (monthly change in thousands)	**179**	-315	321	62	186	466
Nonfarm Payrolls (monthly change in thousands)	**528**	398	386	437	465	512
Construction	**32**	16	35	28	26	26
Manufacturing	**30**	27	19	25	41	40
Retail Trade	**22**	22	-44	0	15	34
Finance, Insurance and Real Estate	**13**	6	10	10	17	16
Professional and Business Services	**89**	91	69	83	78	96
Education and Health Services	**122**	109	78	103	87	66
Leisure and Hospitality	**96**	74	69	80	88	127
Government	**57**	-6	55	35	22	17
*Avg. Hourly Earnings: Total Private**	**0.5%**	0.4%	0.4%	5.2%	4.5%	5.2%
Avg. Weekly Hours: Total Private	**34.6**	34.6	34.6	34.6	34.6	34.7
*Index of Aggregate Weekly Hours: Total Private**	**0.4%**	0.3%	0.3%	3.6%	4.2%	4.1%

*Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized*