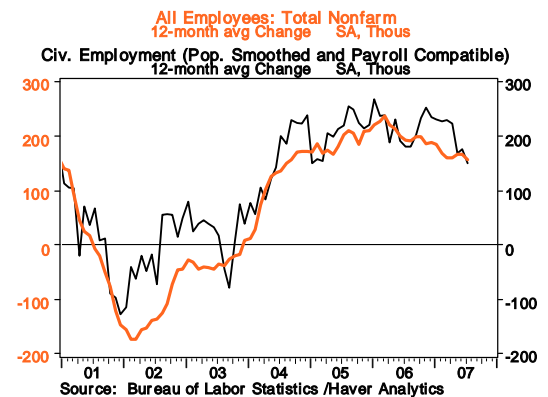


## JULY EMPLOYMENT REPORT

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- Non-farm payrolls increased 92,000 in July while revisions to May and June subtracted 8,000 from payroll growth. The consensus expected a gain of 127,000.
- In contrast, private sector payrolls increased 120,000 in July with upward revisions to May and June adding another 33,000. This means private sector payrolls were 153,000 higher in July than reported in June.
- The unemployment rate increased to 4.6% (4.647% un-rounded), the highest level since August 2006.
- Average hourly earnings increased 0.3% (0.35% un-rounded) and are up 3.9% versus a year ago, consistent with nominal wage gains in the late 1990s.



**Implications:** Today's jobs report contains both positive and negative elements. On the positive side, payroll gains remain strong in the private sector and average hourly earnings continue to grow at a robust rate. Note that all of the downward revision to total payrolls in May and June was due to government payrolls, not the private sector. On the negative side, the unemployment rate moved up to the highest level in almost a year, civilian employment declined 23,000 and the number of hours worked ticked down slightly. In the short-term, the strength in the labor market we have seen in the past few years may downshift, reflecting the lagged effects of slow economic growth in late 2006 and earlier this year. However, we expect this to be short-lived and for job gains to rebound to higher levels given that real GDP growth has already re-accelerated. The underlying trends in the job market are strong. In the past twelve months, payrolls are up an average of 156,000 per month while civilian employment is up an average of 150,000. With profit margins still high, firms have an incentive to expand, thereby creating more jobs and bidding up wages.

Employment Report <i>All Data Seasonally Adjusted</i>	Jul-07	Jun-07	May-07	3-month moving avg	6-month moving avg	12-month moving avg
<b>Unemployment Rate</b>	4.6	4.5	4.5	4.5	4.5	4.5
<b>Civilian Employment (monthly change in thousands)</b>	-23	52	66	32	28	150
<b>Nonfarm Payrolls (monthly change in thousands)</b>	92	126	188	135	132	156
Construction	-12	3	-12	-7	-11	-4
Manufacturing	-2	-13	-3	-6	-13	-15
Retail Trade	-1	-14	18	1	4	5
Finance, Insurance and Real Estate	27	-2	16	14	8	10
Professional and Business Services	26	7	34	22	20	28
Education and Health Services	39	64	47	50	49	47
Leisure and Hospitality	22	33	56	37	33	36
Government (Federal, State, and Local)	-28	19	7	-1	15	20
<b>Avg. Hourly Earnings: Total Private*</b>	0.3%	0.4%	0.4%	4.7%	4.1%	3.9%
<b>Avg. Weekly Hours: Total Private</b>	33.8	33.9	33.8	33.8	33.8	33.8
<b>Index of Aggregate Weekly Hours: Total Private*</b>	-0.1	0.5	0.2	2.3	1.9	1.6

\*3, 6 and 12 month figures are % change annualized