

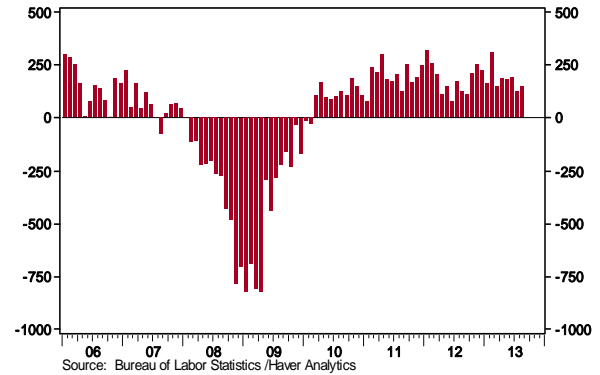
August Employment Report

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

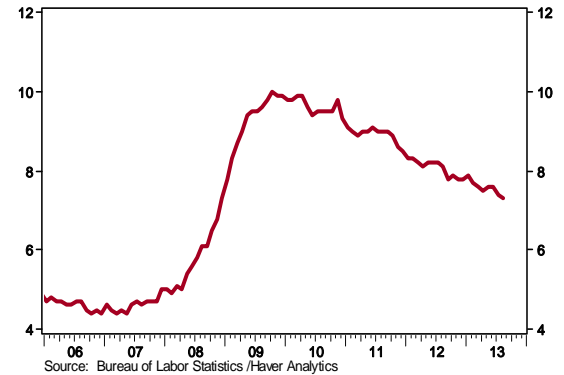
- Non-farm payrolls increased 169,000 in August versus a consensus expected 180,000. Including downward revisions to prior months, nonfarm payrolls were up 95,000.
- Private sector payrolls increased 152,000 in August (+116,000 including revisions to prior months), lagging the consensus expected 180,000. The largest gains were for retail (+44,000), health care (+33,000), and restaurants & bars (+21,000). Government payrolls rose 17,000.
- The unemployment rate declined to 7.3% (7.278% unrounded) from 7.4% (7.390% unrounded).
- Average weekly earnings – cash earnings, excluding benefits – increased 0.2% in August and are up 2.2% from a year ago.

Implications: Something for everyone in today’s report. Data that was weaker than the consensus expected (the payroll report) had strong details, while data that was stronger than expected (the unemployment rate) had weak details. Nonfarm payrolls increased 169,000 in August but only 95,000 including downward revisions to June/July. Very mediocre. However, average weekly hours ticked up and, as a result, total hours worked were up 0.4% in August. If the number of hours per worker were unchanged, a 0.4% gain in total hours would mean a 450,000 gain in payrolls. So we don’t think today’s report indicates a lack of demand for labor. The unemployment rate dropped to 7.3%, the lowest so far this recovery, but it was the result of a 312,000 drop in the labor force. Civilian employment, an alternative measure of jobs that includes small business start-ups, declined 115,000. As a result, the labor force participation rate fell to 63.2%, the lowest since 1978. It’s important to note, however, that the population keeps increasing, so even though the participation rate is so low, the labor force itself is up 718,000 in the past year even as the unemployment rate has dropped 0.8 points. One recent debate is about part-time work. Through July, part-timers were up 692,000 so far this year, a very large share of job gains in 2013. However, part-timers were down 123,000 in August. Either way, we think part-time data need to be handled carefully given volatility. We prefer looking at it over periods of a year. In the past twelve months, part-timers have increased 253,000, which is only 13% of all job gains. However, we can’t help but notice that some of the largest recent payroll gains have been in sectors that lend themselves to part-time jobs. Retail, restaurants & bars, combined, now make up the largest share of private payrolls on record (going back to 1990) with a recent surge that started in April. Only time will tell for sure, but it’s hard to believe Obamacare has nothing to do with this. Firms in these sectors may be adding *more* jobs as a result, but doing it with part-time work. In terms of consumer spending, in the past year hours are up 2.4% while wages per hour are up 2.2%, for a 4.6% gain in cash earnings. After adjusting for inflation, these earnings are up 3% from a year ago, so workers are generating more purchasing power. The big question is how the Federal Reserve reacts to today’s report. We think the numbers still support tapering in September. Obviously, the labor market is far from perfect. What’s holding us back is the huge increase in government, particularly transfer payments, over the past several years. Despite that, entrepreneurs and workers are gritting out a recovery and the Plow Horse economy keeps moving forward.

Change in Total Private Payrolls
 SA, Thous



Civilian Unemployment Rate: 16 yr +
 SA, %



Employment Report All Data Seasonally Adjusted	Aug-13	Jul-13	Jun-13	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	7.3	7.4	7.6	7.4	7.5	7.7
Civilian Employment (monthly change in thousands)	-115	227	160	91	113	158
Nonfarm Payrolls (monthly change in thousands)	169	104	172	148	160	184
Construction	0	-3	10	2	3	14
Manufacturing	14	-16	-7	-3	-4	2
Retail Trade	44	49	45	46	32	33
Finance, Insurance and Real Estate	-5	17	11	8	8	9
Professional and Business Services	23	32	64	40	53	51
Education and Health Services	43	26	23	31	33	31
Leisure and Hospitality	27	13	43	28	36	35
Government	17	-23	-22	-9	-7	-8
Avg. Hourly Earnings: Total Private*	0.2%	0.0%	0.4%	2.5%	1.9%	2.2%
Avg. Weekly Hours: Total Private	34.5	34.4	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.4%	-0.1%	0.1%	1.6%	1.8%	2.4%

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