UNITED STATES

Discouraging job growth in August

HIGHLIGHTS

- According to the establishment survey, there were 169,000 net hirings in August, after a July gain of 162,000 that was revised to 104,000.
- 152,000 jobs were added in the private sector, after 127,000 new jobs in July. Public sector employment expanded by 17,000 jobs.
- The construction sector remained stable, but the manufacturing sector saw 14,000 net hirings.
- There was a gain of 134,000 jobs in the private service sector. Hirings by retailers were still strong, at 44,000. The food services sector has 21,200 more workers than before. The number of workers in professional services rose by 23,000.
- The unemployment rate dipped once again, from 7.4% to 7.3%, According to the household survey, employment contracted by 115,000 jobs, but the labour force shrank by 312,000.

COMMENTS

There is little to rejoice about in the August employment statistics. Job creation did improve last month compared with July, but the increase is still below expectations. The decline in unemployment insurance applications, rising ISM indexes and the consumer confidence levels had been pointing to far better numbers. Moreover, the downwards revisions to the June and July data are quite severe, with a total net effect of -74,000 jobs. This is the most substantial revision since July 2010. At best, we can take some comfort from the increases in hours worked and in wages, and from the performance of certain sectors.

Of the industries that saw good improvement in the job market, one is retail trade, where 392,500 jobs have been created in the past year, including 193,100 in the past five months. Retailers appear to be convinced that spending will be strong. We are also pleasantly surprised by the 17,000 hirings in the public sector, although we must keep in mind that that advance comes mainly from local governments. In the manufacturing sector, the gain of 14,000 jobs is the first increase we have seen since February.

The decline in the unemployment rate is deceptive, as it does not really stem from improvement in the job market. Rather, it is a reflection of the strong monthly volatility of the monthly household survey, which is showing a second straight contraction in the labour force; this constitutes the denominator of the unemployment ratio. In August, the contraction of that figure offset the downturn in employment, resulting in another decline in the unemployment rate. Therefore, it is not for the right reasons that this indicator is edging closer to the thresholds set by the U.S. Federal Reserve.

Implications: Job creation was much weaker than expected in August, and the revisions have cast gloom upon the data of the previous months. We can only hope that hirings will accelerate in the months ahead. This job market performance will not make the Federal Reserve officials’ job any easier, on September 17 and 18, when they will attempt to make a decision about when to start tapering off their bond purchases.

Francis Généreux
Senior Economist