United States: Wages Accelerated in August

HIGHLIGHTS

- The establishment survey indicates that there were 201,000 new jobs in August, following gains of 147,000 in July (downgraded from 157,000) and 208,000 in June (downgraded from 248,000).

- Construction added 23,000 jobs, but there were 3,000 net layoffs in the manufacturing sector, including 4,900 in the auto sector.

- There were 178,000 net hires in private sector services, a spurt following the 117,000 new jobs created in July. However, retailers laid off 5,900 workers. Food services gained 17,500 positions. The health care and education sector gained 53,000 workers. Professional services also added 53,000 hires to payrolls.

- The jobless rate stayed at 3.9%. The household survey posted a loss of 423,000 jobs, while the labour force shrank by 469,000 people. The participation rate dropped from 62.9% to 62.7%.

- The average hourly wage was up 0.4% in August, posting its highest monthly growth in 2018. That brought the annual change up to 2.9%, the highest it has been since May 2009.

COMMENTS

The sluggish job creation in July turns out to have been only a passing phase, and the gain of 201,000 jobs is close to the average of 207,000 for the first seven months of the year. The August increase is also a bit higher than the consensus forecast.

A few elements darkened August’s performance, however. First, June and July’s figures were downgraded to remove 50,000 positions from last month’s results. Second, manufacturing jobs are also down for the first time in a year. Only 52.6% of the 76 manufacturing sectors posted increases in August, which is the lowest ratio since May 2017. Lastly, there is the poor performance by employment in the household survey. However, that may be due to the survey’s high volatility.

We have been expecting wages to go up for quite some time now. They had been lagging behind the other job market indicators throughout the year. The 0.36% gain in June and the 2.9% annual change spike are definitely good news. However, we will have to wait a few more months to see if the pace is really picking up. A 0.26% gain in September (average for the past six months) would bring the annual change up to 2.7%.

IMPLICATIONS

Strong job creation and rising wages should prompt the Federal Reserve leaders to raise key rates at each of their next quarterly meetings, starting with the one on September 26.

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