

July U.S. Employment

July Payrolls Up by 209,000, Unemployment Rate Down to 4.3 Percent

- Payroll Employment increased by 209,000 jobs in July, exceeding expectations.
- The Unemployment Rate for June dipped back down to 4.3 percent.
- Average Hourly Earnings were up by 2.5 percent over the year; the average workweek was unchanged.
- The U.S. International Trade Gap for June narrowed to -\$43.6 billion.

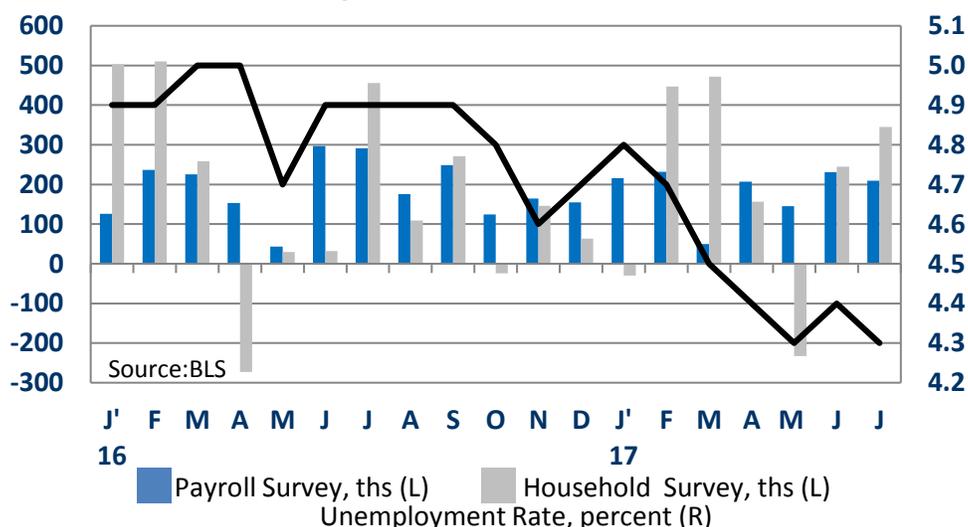
Payroll job data for July exceeded expectations, showing a net gain of 209,000 jobs for the month. Since January, payroll jobs gains have exceeded 200,000 five out of seven months. The household employment survey also showed a strong gain in July, up by 345,000 for the month. Likewise, the civilian labor force increased by 349,000, bringing the unemployment rate back down to 4.3 percent. We expect the unemployment rate to continue to drift down, possibly breaking below 4 percent by the end of the year. The U.S. unemployment rate hit a low of 3.8 percent in April 2000. Average hourly earnings were up by 2.5 percent over the 12 months ending in July. The low unemployment rate suggests that wages and salaries will begin to accelerate, but so far that relationship has been weaker than expected. Slower gains in wages and salaries, plus tepid inflation data adds downside risk to the expectation of four more fed funds rate hikes between now and the end of 2018. Today's strong jobs report keeps the Federal Reserve on track to announce on September 20 that balance sheet reduction will begin in October. The Fed will see one more jobs report for August, before the September 19-20 FOMC meeting.

The establishment data showed broad-based job gains in July. Mining and logging employment was unchanged for the month, consistent with a flattening rig count. Construction employment increased by 6,000 jobs. Manufacturing gained a surprising 16,000 jobs. Wholesale trade employment was up by 6,100. Retail trade was flat, up only 900 jobs in July. Information services gained 4,000 jobs while financial services added 6,000 jobs. Professional/business services was strong, up 49,000 jobs. Education and health care was also strong, up by 54,000 jobs. Leisure/hospitality showed an outsized gain of 62,000 jobs in July. Government employment was up by 4,000 jobs.

The U.S. international trade gap in goods and services narrowed in June to -\$43.6 billion. This is a backwards looking number with neutral implications for Q2 GDP. Imports eased by \$0.4 billion while exports expanded by \$2.4 billion.

Market Reaction: U.S. equity markets opened with gains. The 10-Year T-bond yield is up to 2.28 percent. NYMEX crude oil is down to \$48.80/barrel. Natural gas futures are down to \$2.78/mmbtu.

July Labor Data Looks Good



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