US August jobs report

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August employment data shows a cooling but not a collapse

Global financial markets were eagerly awaiting the US August employment data for clues on the state of the economy and for what it meant for the pace of Fed rate cuts. Recent economic data has been, in aggregate, somewhat weaker but it was unclear of the would immediately impact the jobs market. The previous month's employment data showed the unemployment rate unexpectedly rising from 4.1% to 4.3% and the payroll numbers increasing at a very disappointing 114k for the month. The unemployment rate can be volatile month to month so the markets were hoping that it would tick down to 4.2% and that the job gains for the month would rise to 165k in August.

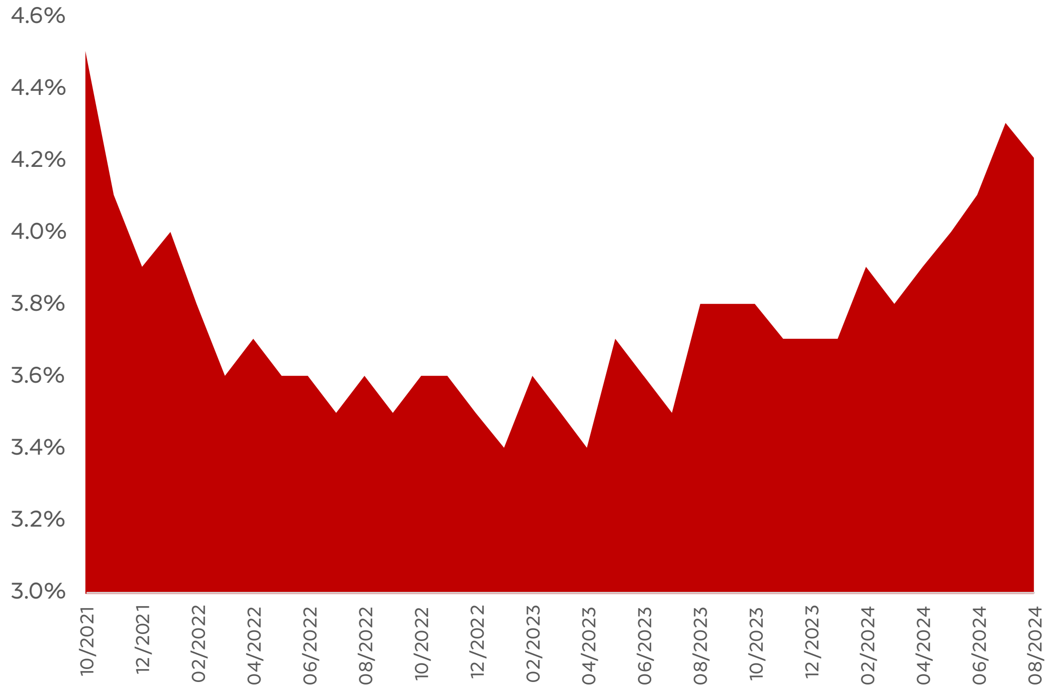
For August, the **unemployment rate did decline to the expected 4.2%**, but the **job gains were somewhat disappointing at 142k**. In addition, there were significant downward revisions of 86k to the previous 2-months of job gains showing that the overall jobs market has been weaker than initially reported. This is in addition to the 818k downward revision to the jobs data from April 2023-March 2024 which came out in the annual revisions in August.

Much of the weakness during the month was due to Manufacturing payrolls declining by 24k, but we note that this was not surprising given that manufacturing PMI data and employment data has been very weak. On the other hand, Construction was strong with 34k jobs added during the month. And the Services part of the economy remains strong with 47k jobs in Education and Health Services and 46k jobs in Leisure and Hospitality.

Average hourly earnings data shows that wage inflation is still something that needs to be monitored. Month-on-month hourly earnings increased by 0.4%, the highest since January. Year-on-year hourly earnings increased 3.8%, up from 3.6% the previous month. The year-on-year trend is still down, after peaking at 6% in 2022, but if the month-on-month levels continue at higher levels (0.3% or 0.4%) then the risk would be that the YoY starts to stabilize in the 4% range. This would maintain upward pressure on overall inflation and would limit the Fed's ability to cut rates.

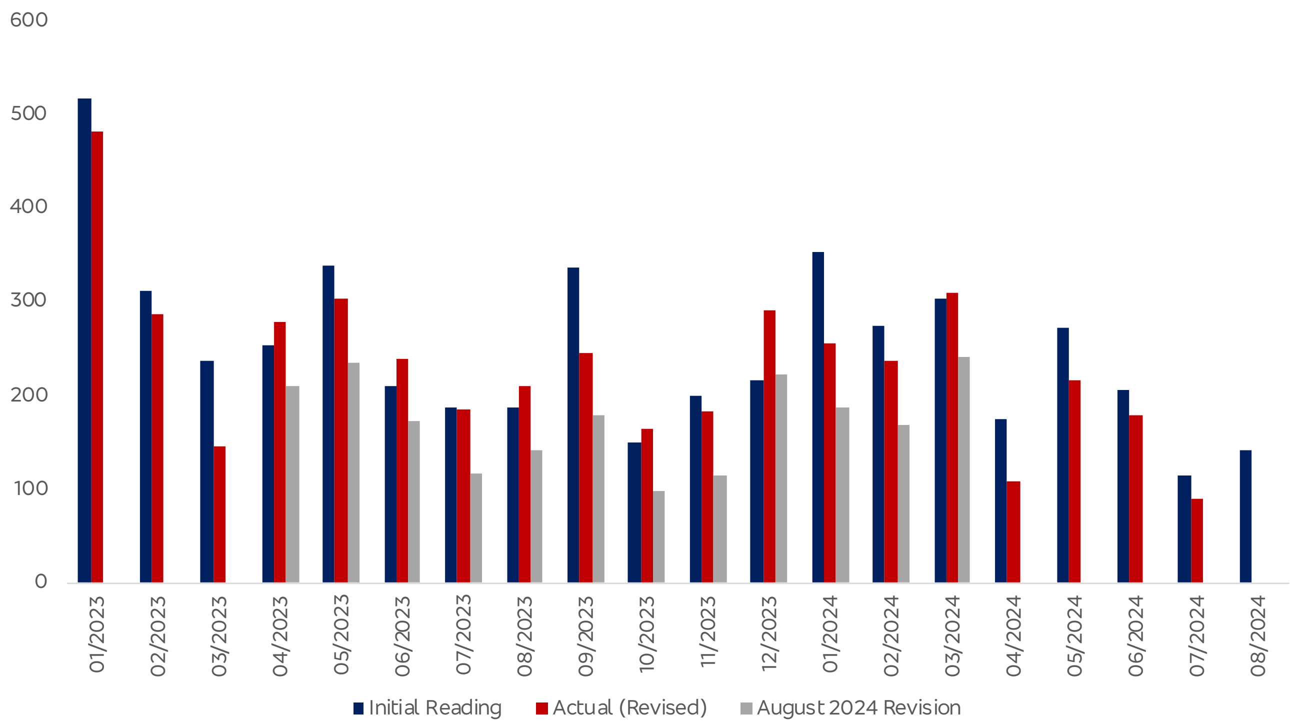
Given the somewhat mixed messages from the jobs data, with the unemployment rate declining, but jobs growth disappointing, it is still not clear if the Fed will cut by 0.25% or 0.50% at its September 18 meeting. While the economy and employment market are slowing, it does not seem like a collapse, hard-landing, or recession are imminent. We believe the focus will now shift to the CPI inflation data to be released on September 11. If stronger hourly earnings growth leads to higher inflation, it could mean the Fed is limited to cutting rates by 0.25%. Current expectations are for headline and Core CPI month-on-month inflation to be 0.2% for August. If it comes in slightly higher at 0.3%, it would be a warning sign that inflation may not yet be fully under control.

Unemployment rate declined to 4.2% from 4.3% in August



Source: Bloomberg/Bradesco

142k jobs created in August, with downward revisions to previous months



Source: Bloomberg/Bradesco

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