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Is the economy as good as the jobs number, or as bad as the GDP number?

**Comment on U.S. Bureau of Labor Statistics Employment Situation Report
Gad Levanon, Chief Economist, North America, The Conference Board**

Following a 292,000 job gain in June, the economy generated 255,000 jobs in July. The unemployment rate remained at 4.9 percent as an increase in labor force participation offset the strong job gain.

With corporate profits and business investment turning negative in recent quarters, one of the main questions related to the US economy is whether employers will slow down hiring. July's strong job growth, on top of the strong gain in June, suggests that so far the answer is no.

The fact that employment growth remains robust even when GDP grows at a one percent rate is disconcerting, as it implies that labor productivity is continuing to weaken from already anemic rates. One potential explanation is that much of the weakness in GDP in recent quarters comes from manufacturing and mining, which are both capital intensive industries, so the impact on overall employment is limited.

In addition, businesses' preference for hiring over investment may reflect either perceptions of increased political risks in the short term, or fears that the pace of innovation is insufficient to boost long-term productivity growth.

The strong employment reports in the past two months increase the motivation for the Fed to increase rates in September, though in our view a post-election hike is still more likely.

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