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Slower Employment Gains in August Signals Possible Moderation of Job Growth Trend

Comment on U.S. Bureau of Labor Statistics Employment Situation Report
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Employment growth moderated to 156,000 jobs in August after increasing by 189,00 jobs in July.

Downward revisions to both June and July numbers show that the current job growth trajectory remains robust but may have softened mildly over the summer. Still, since 2011 the economy has been churning out 2 million or more jobs per year, and even if this trend slows modestly during the rest of 2017, the figures remain impressive given a low 4.4 percent unemployment rate.

One of the most notable changes in the August reading is that goods producing industries created nearly as many new jobs as services, a change from services-led job growth which has prevailed throughout the current expansion. Manufacturing, mining, and construction all featured stronger job gains than had been the pattern recently. Notably, job growth slowed in the health care and education sectors which had been key sources of labor market strength so far in 2017.

Even though August's numbers were softer than those of recent months, labor market conditions remain strong overall. Americans feel secure about their job prospects; according to The Conference Board's Consumer Confidence Survey, the share of consumers who believe that jobs are hard to get has reached its lowest level since 2001. As a result, spending growth has picked up and should remain strong through the holiday season.

Despite low unemployment and continued strong job growth, hourly wage growth, as measured by BLS, has remained stuck at 2.5 percent since April. Other measures such as the Atlanta Fed's Wage Growth Tracker show faster wage growth among those who have stayed employed over a 12-month period. A partial explanation for a delayed acceleration in wage growth is that baby boomers who earn relatively high wages are retiring, while many entry-level workers earning lower salaries are finding jobs. Slow inflation growth is also holding down what businesses can afford to pay. Labor force participation rates among workers aged 25 to 54 remain lower than before the recession, which along with continued fast employment growth, signals that many more workers may still return to the labor market. Slow productivity growth has also constrained wage growth during the expansion. Therefore, the recent pickup in productivity growth could signal good news ahead for workers. Robust business confidence and a need to meet higher domestic and external demand could encourage firms to redouble efforts to become more efficient, helping their workers to both produce and earn more.

With both inflation and wage growth contained for the time being, the Federal Reserve will likely normalize interest rates slowly, perhaps waiting until 2018 before boosting rates again.

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