KKR

Flash Macro Update

U.S. Jobs Report | September 2024

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What You Need to Know

1 How are we thinking about the August U.S. jobs report?

While the nonfarm payroll data for August painted a picture of a distinctly softening U.S. economy, the report did not confirm beyond a reasonable doubt that the Federal Reserve needs to be easing by 50 basis points. Headline job growth in August came in slightly below expectations (+142k vs. +165k), but the more notable elements of the report were broad downward revisions to prior months (-85k net). Given the revisions, we are now seeing a picture where headline job growth has been below 125k in four of the last five months, and a three-month moving average payroll growth (+116k) is the slowest since 2012. Remember we are using 2.5% GDP growth this year, but our second half estimate for growth is 1.5% versus 3.0% for the first half, so we have been forecasting a slowing growth environment.

What do we think this means for markets? Overall, we think this report, once economists parse through the numbers, will not be as negatively perceived as some were thinking. To be sure, while negative revisions are noteworthy, our overall message remains the Fed needs to move aggressively, but we are not sure that includes 50 basis points to start – especially since financial conditions are still quite favorable. In the past, 50 basis point easings to start a cycle usually included wider credit spreads and higher unemployment rates. For stocks we still see some downward cyclical pressure in September. We see bonds appreciating a touch, and we expect modest dollar weakness. Our major themes remain intact. Focus on productivity, the Security of Everything, the surge in AI energy demand – and how it will be met, and collateral-based cash flows.

KEY TRENDS IN THE DATA

While the biggest headlines will likely center on the 142,000 jobs reported this month, slightly below consensus of +165k though up from +89k (downwardly revised) in July, the most important insight is that with revisions from prior months, we have now been below 125,000 every month except one since April. Importantly, a stagnant labor market (i.e., one in which hires, quits, and turnover are at low levels) means that slower labor demand will increasingly be reflected in weaker headline data. What makes us feel better is that claims/layoffs are not spiking the way they do in a 'typical' U.S. downturn.

At the sector level, some cyclical areas also started showing more overt softness, including negative readings from manufacturing (-24k), retail (-11k), and information (-7k). Furthermore, the contribution from government jobs remained positive (+24k), but we saw notable downward revisions to prior months (Jun-Jul revised down by a cumulative -24k).

The headline story about the job market remains largely the same: government jobs (24,000), healthcare/education (47,000), and travel/leisure (46,000), which collectively represented 82% of total job growth, are driving the employment growth, but overall trends are clearly moderating. The fact we have spent 20 of the past 21 months with an ISM below 50 is clearly impacting the goods sector, with manufacturing jobs falling 24,000 (and representing the worst sector in the economy). That said, construction jobs jumped to 34,000, up from 13,000 the prior month, and of the three super sectors mentioned above, the private sector was more influential to growth this month than the government. Also, technology, which saw a 15,000-job loss last month, fell just 1,000 in August.

Other areas of focus include:

- Participation held flat at 62.7% and remains about 70 basis points below pre-COVID levels. That said, we think a surge in immigration is boosting labor availability for low-skill roles, which is creating a more disinflationary labor market backdrop.
- Private payrolls (+118k, up from a revised +74k in July) remain subdued and are actually at their lowest level on a 3-month moving average basis since 2012 at just +96k. By contrast, the 6-month moving average figure of +139k looks healthier, and in the range of the mid-cycle slowdown seen in 2018/2019. Our bottom line is that the labor market is still not behaving the way it does during a severe downturn, but the data remains noisy, so policymakers are under more pressure to manage downside risks to growth.
- Services drove nearly all private job gains in August (+108k, up from +54k last month), and growth was concentrated in just two categories: Education and Healthcare (+47k) and Leisure & Hospitality (+46k). Meanwhile, temporary help services employment continues to contract (-3k).
- Goods producing payrolls added +10k jobs, with solid gains in Construction (+34k). Meanwhile, Manufacturing jobs dropped by -24k. Overall, we think the Construction employment picture remains a bright spot relative to the weak data on residential activity in recent months.
- Month-over-month wage growth picked up to +0.4% m/m from +0.3% m/m in July, while the year-over-year measure rose to +3.8% from +3.7%. Improving productivity supports our view that the U.S. can sustain wage growth in the 3-4% range this cycle even as Core CPI settles in the 2.5% range, which will give policymakers more confidence that the labor market is no longer contributing to inflation.

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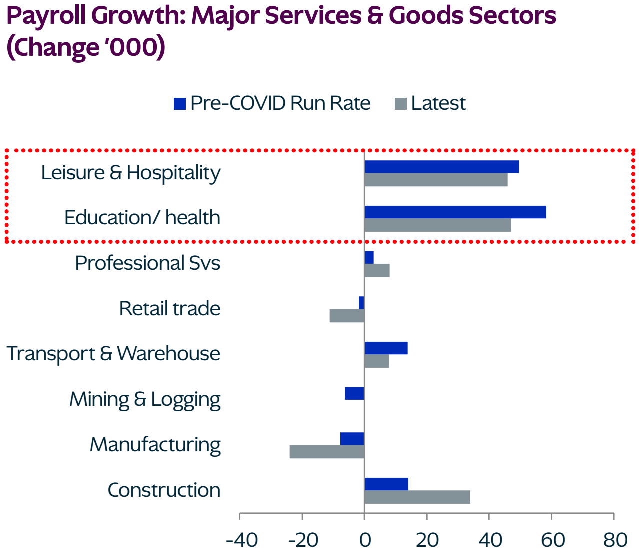
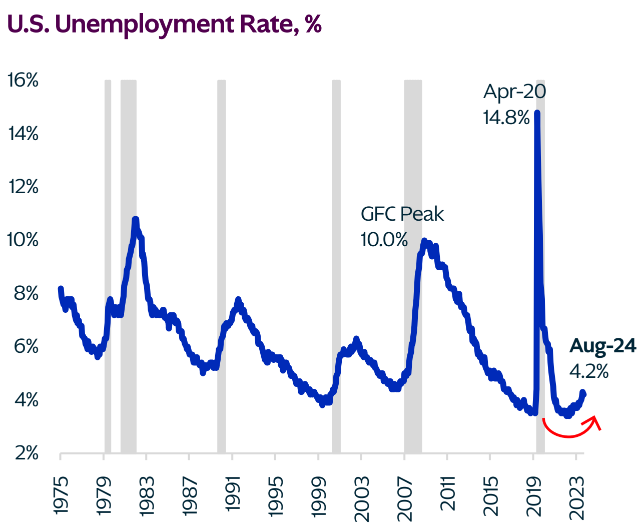
Exhibit 1: Education & Healthcare, Leisure & Hospitality, and Construction Drove Nearly All of August's Headline Job Gains



Data as at August 31, 2024. Source: Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

Exhibit 2: The Headline Unemployment Rate Fell Slightly To 4.2%



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