

U.S. Data Review

- Employment: hesitancy in hiring
- ISM services: off moderately from a record level; still elevated

Michael Moran

Daiwa Capital Markets America
 212-612-6392
michael.moran@us.daiwacm.com

The Employment Situation

Payroll employment disappointed in August, as the increase of 235,000 was well below the expected advance of 725,000. Upward revisions of 134,000 in the prior two months eased the sting slightly, but the new figures in total were well shy of expectations. The unemployment rate posted a better showing, as it fell 0.2 percentage point to 5.2 percent, matching expectations.

Several sectors contributed to the soft payroll results. The leisure and hospitality sector stood out, showing no change in employment after robust gains in the prior six months. The reacceleration in the number of Covid cases most likely put a damper on this sector. The health-care industry, usually a reliable source of job growth, trimmed payrolls by 5,000, and the retail and wholesale trade areas, which had been doing well this year, both reduced payrolls. The construction industry, which had been sputtering this year, remained soft in August, cutting payrolls by 3,000. Employment at state and local governments fell by 11,000, but we would discount this drop because the softness was concentrated in education where hiring patterns and seasonal adjustment have been distorted by Covid.

A few areas continued to perform well in August. The manufacturing sector posted good gains, led by the auto industry despite problems with supply chains. The mining sector continued to inch ahead, and providers of air and truck transportation continued to recover, as did the information industry. Financial and business services both registered respectable gains.

The drop of 0.2 percentage point in the unemployment rate tilted on the firm side. That is, the decline reflected a decent gain in employment as measured by the household survey (up 509,000) that exceeded the increase in the size of the labor force (up 190,000). The increase in the size of the labor force might be viewed as light given that supplemental unemployment benefits have been discontinued in several states and will soon expire nationally. The

Employment Report*

	Nonfarm Payrolls (Chg., Thousands)	Private- Sector Payrolls	Unemp. Rate (Percent)	Broad Unemp. Rate	Household Emp. (Chg., Thousands)	Labor Force (Chg., Thousands)	Emp.- Population Ratio (Pct.)	Median Duration of Unemp. (Weeks)	Part-Time Econ. Reasons (Thou.)	Avg. Hourly Earnings % Chg.	Avg. Workweek (Hours)
Annual Average											
2019	168	150	3.7	7.2	166	121	60.8	9.2	4,408	0.2	34.4
2020	-785	-679	8.1	13.7	-742	-334	56.8	12.6	7,227	0.5	34.6
2021	586	512	5.9	10.2	416	121	58.0	17.8	5,245	0.3	34.8
Qtrly. Average											
20-Q2	-4,333	-3,860	13.1	20.7	-4,479	-975	52.9	7.6	10,190	0.7	34.5
20-Q3	1,342	1,174	8.8	14.5	1,814	94	56.1	16.5	7,405	0.2	34.7
20-Q4	213	346	6.8	11.9	762	163	57.4	18.2	6,493	0.5	34.8
21-Q1	518	489	6.2	11.0	339	-3	57.6	17.8	5,956	0.1	34.8
21-Q2	615	530	5.9	10.1	251	430	58.0	19.6	5,047	0.5	34.8
2021 Monthly											
Jan.	233	122	6.3	11.1	201	-406	57.5	15.3	5,954	0.0	35.0
Feb.	536	622	6.2	11.1	208	50	57.6	18.3	6,088	0.3	34.6
Mar.	785	724	6.0	10.7	609	347	57.8	19.7	5,826	-0.1	34.9
Apr.	269	226	6.1	10.4	328	430	57.9	19.8	5,243	0.7	34.9
May	614	555	5.8	10.2	444	-53	58.0	19.3	5,271	0.5	34.8
June	962 (938)	808	5.9	9.8	-18	151	58.0	19.8	4,627	0.4	34.7
July	1,053 (943)	798	5.4	9.2	1,043	261	58.4	15.2	4,483	0.4	34.7
Aug.	235	243	5.2	8.8	509	190	58.5	14.7	4,469	0.6	34.7

* Preliminary readings on nonfarm payrolls are shown in parenthesis.

Source: Bureau of Labor Statistics via Haver Analytics

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broad unemployment rate posted a sharper decline (down 0.4 percentage point to 8.8 percent). In addition to the influence of the traditional unemployment rate, the broad measure was pushed lower by a sharp drop in the number of marginally attached workers. The number of involuntary part-time workers fell slightly and contributed marginally.

Average hourly earnings surged 0.6 percent in August. The lack of employment growth in the leisure and hospitality sector (a low-wage area) probably contributed some to the increase in this measure (this measure is not a fixed-weight statistic, and thus the composition of employment will affect the change). Still, the increase was sizeable enough to suggest that genuine wage increases played a role.

The length of the average workweek was unchanged at 34.7 hours, but the steady reading occurred from a downwardly revised reading in the prior month (revised down from 34.8 hours). With no change in the length of the workweek, and with only moderate growth in employment, the index of total work time rose 0.2 percent. An advance of this magnitude would be respectable in many settings, but at this stage of the current business cycle, it is mediocre.

ISM Services

The services index published by the Institute for Supply Management fell 2.4 percentage points in August to 61.7 percent, exactly matching expectations. The decline occurred from a record reading in the prior month, and thus the index remained quite strong by historical standards. Only five observations in the history of the series were higher, and four of them have occurred in recent months.

A decline of 6.9 percentage points in the business activity component led the drop in August. The reading in the prior month was not a record, but it was still quite high by historical standards, and the new reading of 60.1 percent remained impressive. The new orders and employment components posted modest declines (off 0.5 and 0.1 percentage point, respectively). The orders component remained in the upper portion of its historical range, while the employment index was mid-range.

The supplier delivery index merits special attention at this time because of insights it provides on supply chain disruptions. This measure fell 2.4 percentage points in August, suggesting progress in resolving disruptions, but the measure remained far above normal readings (the index historically has hovered in the low-to-mid 50-percent area). Hints of progress in repairing supply chains also was evident in the 6.9 percentage point drop in the prices index, but again, the measure was elevated at 75.4 percent.

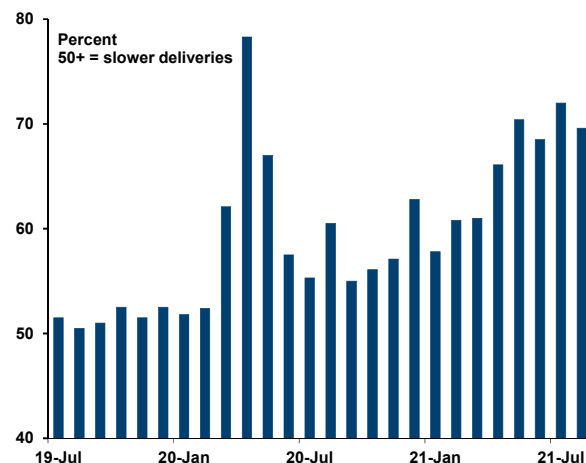
ISM Services: Monthly Indexes

	Apr-21	May-21	Jun-21	Jul-21	Aug-21
ISM Nonmfg. Composite	62.7	64.0	60.1	64.1	61.7
Business activity	62.7	66.2	60.4	67.0	60.1
New orders	63.2	63.9	62.1	63.7	63.2
Employment	58.8	55.3	49.3	53.8	53.7
Supplier deliveries*	66.1	70.4	68.5	72.0	69.6
Prices	76.8	80.6	79.5	82.3	75.4

* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics

ISM Services: Supplier Deliveries Index*



* An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics