USA: Payroll Growth Well Above Expectations and Revised Higher for Prior Months; Unemployment Rate Unchanged on a Rounded Basis;

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BOTTOM LINE: Nonfarm payrolls increased by 162k in August, well above expectations, and were revised higher in both July and June. The increase in payrolls largely reflected a rebound in leisure and hospitality (+62k) and local government education (+42k)—as both sectors normalized after recent large declines—as well as continued strength in healthcare and construction. After upward revisions to the two prior months, the three-month average of payroll growth stands at 71k (vs. 20k prior to today's report), and our estimate of the underlying pace of job growth based on the payroll and household surveys now stands at 53k (vs. 5k prior to today's report). The unemployment rate increased by 5bp to 4.14%, reflecting a 569k increase in household employment and a 683k increase in the size of the labor force. The labor force participation rate rose by 0.2pp to 61.6% and now stands 0.5pp below the January level when the benchmark revisions took effect, about 0.2pp of which likely reflects composition effects.

US MAP:

Nonfarm payrolls +15 (5 +3)

Unemployment rate 0 (5, 0)

KEY NUMBERS:

Nonfarm payrolls +162k for August vs. GS +40k, median forecast +55k, prior revised +21k

Private payrolls +127k for August vs. GS +40k, median forecast +50k, prior revised +71k

Unemployment rate 4.1% for August vs. GS 4.1%, median forecast 4.1%, prior 4.1%

Labor force participation rate 61.6% for August vs. median forecast 61.5%, prior 61.4%

Average hourly earnings +0.3% (MoM) for August vs. GS +0.4%, median forecast +0.3%, prior revised+0.2%

MAIN POINTS:

1. Nonfarm payrolls increased by 162k in August, well above expectations. Payroll growth was revised up by 44k to 21k in July and by 11k to 31k in June, with the largest revisions to the retail trade sector (+46k across the two months). The three-month average of payroll growth stands at 71k (vs. 20k prior to today's report), and our estimate of the underlying pace of job growth based on the payroll

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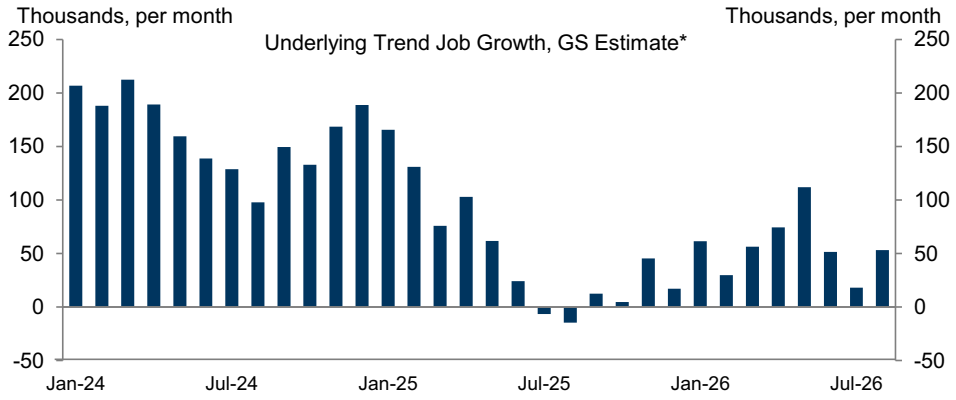


and household surveys now stands at 53k (vs. 5k prior to today's report). The payrolls diffusion index increased by 2.8pt to 55.6 on a one-month basis, its highest reading since December 2024.

2. The increase in payrolls largely reflected a rebound in leisure and hospitality (+62k) and local government education (+42k), after the two had declined by 75k and 52k over the previous two months, respectively. As we noted, both series experience large swings in employment in summer months on a not-seasonally-adjusted basis, making it difficult to seasonally adjust them well and contributing to outsized volatility in their monthly seasonally adjusted readings. Elsewhere, payroll growth was the strongest in the healthcare (+28k) and construction (+22k) sectors and weakest in the information (-23k) and financial activities (-11k) sectors. While today's data did not exhibit the weakness of August first prints relative to the prior trend that we have observed in recent years, payroll growth in the categories that typically underperform in August first prints and later get revised up—information, professional services, manufacturing, and retail—decelerated to +4k vs. a prior three-month average of +30k.

3. The unemployment rate rose by 5bp to 4.14%, reflecting a 569k increase in household employment and a 683k increase in the size of the labor force. The labor force participation rate rose by 0.2pp to 61.6% and now stands 0.5pp below the January level when the benchmark revisions incorporated Census data with a long lag that resulted in a 0.4pp downward revision to the January labor force participation rate and caused a statistical break that makes the decline in the labor force participation rate this year appear 0.4pp sharper than it would otherwise be. We estimate that roughly 0.2pp of the decline in participation since January reflects changes in the composition of the working-age population toward groups with lower participation rates. We continue to see some evidence of residual seasonality in the participation rate of the 16-24 year-old group, which rose by 0.8pp in August and now stands at its January level. Household employment adjusted for methodological differences between the household and payrolls surveys and for changes in the BLS's population estimates increased by 673k in August. The U6 underemployment rate declined by 0.2pp to 7.7%.

4. Average hourly earnings increased 0.3% month over month in August, in line with consensus expectations. The year-over-year rate declined 0.15pp to 3.09%. Wages for production and non-supervisory workers increased by 0.34% month over month or 3.30% from a year ago. Our wage tracker stands at 2.8% annualized and 3.6% year-over-year in Q2, and our wage survey leading indicator stood at 3.5% in August.



* We estimate underlying trend job growth as 0.75*3-month average payroll growth + 0.25*9-month average household employment growth; see our report "How to Read the Employment Report." We adjust for the undercounting of immigration; see our report "Do the Official Statistics Fully Capture the Recent Surge in Immigration?".

Source: Goldman Sachs Global Investment Research, Department of Labor