MISSED IT BY THAT MUCH

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After looking at the August Employment Situation report, I couldn't help but get a sense of déjà vu. Do you remember a few months back when forecasters had their worst "miss" ever in terms of projecting nonfarm payrolls (NFP)? Well, this latest NFP "miss" gets the silver medal and brought to mind the classic *Get Smart* quote, "missed it by that much."

For the record, total NFP rose by 235,000 in August, as compared to the consensus forecast of a 733,000 increase. For those keeping track, that's nearly a half-million worker "miss". As was the case with the April jobs report "miss" (which was nearly three-quarters of a million), I don't believe this is representative of a renewed trend towards deceleration, and it also underscores how COVID-19 can wreak havoc on trying to project economic data. Indeed, as we have seen with various consumer confidence surveys, it appears as if the delta variant is finally making its impact felt on some of the already released economic reports for August, and hopefully, this will prove to be just a temporary hurdle. Perhaps the best "case in point" would be to look at the Leisure & Hospitality component, the grouping arguably most impacted by COVID-19 on both ends of the spectrum. This sector was unchanged last month after posting an average monthly gain of 406,000 during the June/July period.

When examining the jobs data more closely, some perspective is also needed. For example, the prior two months' tallies were revised upward and now show a monthly average increase of over +1.0 million workers. In other words, the August disappointment is coming off of an incredibly solid performance earlier in the summer. In addition, the unemployment rate continued to drop, falling 0.2pp to 5.2%, with the alternate measure, civilian employment, actually rising 509,000.

Remember how I've been highlighting to keep your eye on wage trends? Well, average hourly earnings certainly did not disappoint, posting a year-over-year increase of 4.3% on top of July's upwardly revised figure of +4.1%. This elevated trend was relatively broad-based as well and will need to be monitored closely for the ongoing inflation debate.

So, of course, the U.S. Treasury (UST) market rallied on this "large NFP miss," right? Not so fast, after a knee-jerk positive reaction, the UST 10-yr yield rose about +5 basis points (bps) to 1.33%, as of this writing. From a technical perspective, the one-year Fibonacci analysis for the ten-year placed 1.3265% as the next retracement level to the upside. A close above this level opens the door to a potential next stop of roughly 1.50%. The UST 10-year yield hasn't been at 1.50% on a sustained basis in about three months.

Finally, the Federal Reserve (Fed). I don't think this NFP disappointment necessarily stops the Fed from tapering later this year, but you will need to see some rebound in job creation in upcoming reports to keep this timeline on track. Remember, from here on out, the policymakers will be emphasizing their 'maximum employment' goal when making future policy decisions.

Unless otherwise stated all data sourced is Bureau of labor statistics as of 9/3/2021

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Inflation : Characterized by rising price levels.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Basis point : 1/100th of 1 percent.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Tapering : A shift in monetary policy by which the Federal Reserve would begin decreasing the amount of bonds it purchases.