

Strong ADP Jobs Report Sets Stage for Third-Quarter Bounce

Private employers added 179,000 jobs in July, setting the stage for Friday's unemployment report.

By Tim Mullaney
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American companies added 179,000 new jobs in July -- setting the stage for the unemployment rate to drop further as the clock ticks toward the U.S. presidential election in November.

The gain in private-sector hiring reported by payroll processor ADP beat expectations for 165,000 new jobs, and is consistent with economists' consensus that slightly more than 100,000 new jobs are needed each month to keep the 4.9% unemployment rate declining. June's estimate of private-sector hiring was revised upward by 4,000 jobs, to 176,000.

The relative strength of hiring may paradoxically point to what is keeping the economy weak, said **Bernard Baumohl, chief economist of the Economic Outlook Group** in Princeton, N.J. With consumer spending growing at a pace of near 4% a year, but with business investment actually declining, employers may be treating new hires like inventory -- something they can let go if sales slacken, rather than commit to in equipment they have to pay for even if business conditions soften.

"It seems clear companies' preference is to beef up payrolls to increase output, rather than invest in capital goods that would lift productivity," **Baumohl** said. "An investment into expanding their capital stock is a greater, longer-term commitment, one they are unlikely to make given the many uncertainties about the U.S. election and the health the global economy."

The mix of hiring points to slightly less uncertainty in July.

Manufacturers like **General Motors** and **Caterpillar** added 4,000 jobs, their newfound confidence after reducing staffs by 21,000 in June accounting for all of the improvement from last month's ADP report.

In a related move, this month's hiring was more concentrated in larger companies, which added 50,000 workers, twice as many as last month. Small businesses added 61,000, down from last month's 95,000, and companies with 50 to 499 employees added 68,000.

Financial companies like **Bank of America** and **JPMorgan Chase** added 11,000 workers. Business services companies like **Accenture** and the largest part of **IBM** added 59,000.

"The economy is fine," said Mark Zandi, chief economist of Moody's Analytics, which compiles the data for ADP's report. "Job growth is throttling back, but I don't think it's a bad sign. It's still well above the growth of the employment-age population."

The economy only needs about 85,000 new jobs a month to keep up with population growth, assuming the workforce participation rate stays stable, Zandi said. He said the current 4.9% unemployment rate is near full employment. The 9.6% of workers who are either jobless, out of the work force because they think they can't get a job, or working part time but want full-time work, is about 0.6 percentage points above full employment and will get there by early 2017.

Indeed, the economy's bigger problem will soon be a labor shortage, Zandi argued.

But the **Federal Reserve** should let the economy move slightly beyond full employment to let workers hit by the sharp 2008 recession and the sluggish recovery from the financial crisis recover lost ground in wages, Zandi suggested. The job market may still re-absorb workers whose skills have grown stale during an extended period of being out of the labor force.

Futures markets think the Fed is going to hold off on raising rates for a while. Futures prices indicate that markets think the central bank will not raise the federal funds target range until next June.

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