ECONOMIC UPDATE

REGIONS

October 2, 2020

September Employment Report: Way More Noise Than Signal

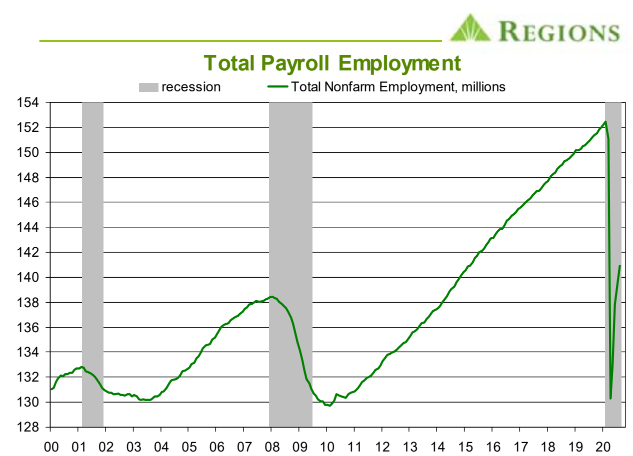
- Nonfarm employment rose by 661,000 jobs in September; prior estimates for July/August were revised up by a net 145,000 jobs
- Average hourly earnings rose by 0.1 percent while aggregate private sector earnings rose by 1.1 percent (down 1.7 percent year-on-year)
- The unemployment rate fell to 7.9 percent in September; the broader U6 measure fell to 12.8 percent

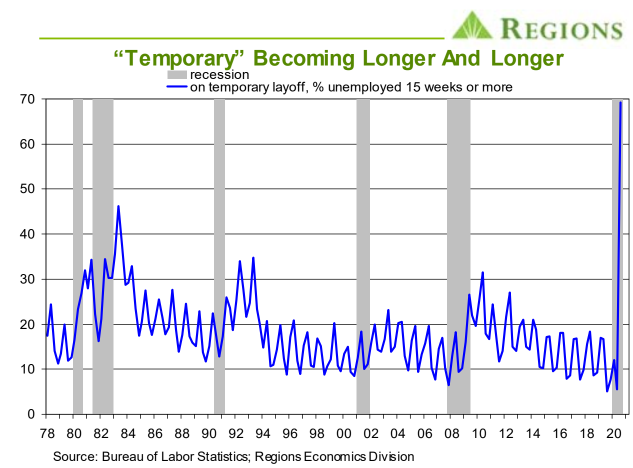
Total nonfarm employment rose by 661,000 jobs in September, with private sector payrolls up by 877,000 jobs and public sector payrolls down by 216,000 jobs. Prior estimates of job growth in July and August were revised up by a net 145,000 jobs for the two-month period, of which 105,000 came in the public sector. The unemployment rate fell to 7.9 percent on a decline in labor force participation, while the broader U6 rate fell to 12.8 percent thanks to a sharp decline in the number of those working part-time for economic reasons. Average hourly earnings were up by 0.1 percent, but this middling increase is more a reflection of the "calendar effect," i.e., the survey period ending prior to the 15th of the month, which tends to bias measured hourly earnings lower. Still, with the average workweek longer by one-tenth of an hour, aggregate private sector wage and salary earnings rose by 1.1 percent in September.

The problem with the numbers referenced in the paragraph above is that virtually none of them are what they seem. Digging into the details beneath the numbers referenced above shows the September employment report is riddled with seasonal adjustment noise, and without accounting for this noise, any conclusion based on the "headline" numbers cited above is inherently flawed. For instance, we noted in or weekly *Economic Preview* that leisure and hospitality services and retail trade would be prime sources of seasonal adjustment noise. In a typical year, unadjusted job counts in these industry groups decline, reflecting normal seasonal patterns. As such, the seasonal adjustment factors are geared to compensate for significant declines in the raw data. This year, however, normal seasonal patterns have been significantly disrupted, and hiring patterns are far more a reflection of the economy continuing to reopen and adjust to the changes brought about by the pandemic. In a "typical" September, not seasonally adjusted employment in leisure and hospitality services tends to fall by about 2.8 percent, the average September decline from 1990-2019, but this year unadjusted job counts in this industry group rose by 0.6 percent, which turned into a 1.1 percent increase in the seasonally adjusted data, which show an increase of 318,000 jobs in this industry group alone. State and local government employment is another area which we noted was likely to be impacted by seasonal adjustment noise, specifically education segment. With school years delayed in parts of the country and school districts in much of the country utilizing remote learning, rather than in-class learning, hiring in this area was much more restrained than is the case in a typical September, particularly amongst support staffs. As such, while not seasonally adjusted payrolls in state and local government education went up by a total of 948,200 jobs, this is a much smaller increase than is typical in September, hence the reported decline of 280,500 jobs on a seasonally adjusted basis.

In a sense, these two instances can be seen as largely cancelling each other out. but this does at least alter the composition of job growth, such that private sector job growth was weaker than reported while public sector job losses were much less harsh than reported. What is real in the reported decline in public sector employment is the decline in federal government employment, as just over 40,000 temporary Census jobs ran off the books. But, there are other instances of seasonal adjustment noise in the September data. For instance, the seasonally adjusted data make the decline in labor force participation seem less harsh than was actually the case and make household employment seem stronger than it was. This noise mainly stems from adjustments amongst the 16-to-19 year-old age cohort; what really stands out to us in the household survey data is the decline in participation amongst the 25-to-54 year-old age cohort, i.e., the "prime working age" population. What also stands out in the household survey data is the lengthening duration of unemployment, particularly amongst those on temporary layoff. As of September, 69.3 percent of those classified as being on temporary layoff had been out of work 15 weeks or more, easily the highest share on record. Additionally, the number of permanent job losses continued to rise in September and will rise even more in coming months based on numerous job cuts planned by large corporations across an array of industry groups.

Sifting through all of the noise, what seems clear is that the labor market recovery has shifted into a lower gear, and progress will be harder to come by in the months ahead.





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