October Employment Report: Labor Market Continues To Heal, But Not Without Worries

- Nonfarm employment rose by 638,000 jobs in October; prior estimates for August/September were revised up by a net 15,000 jobs
- Average hourly earnings rose by 0.1 percent while aggregate private sector earnings rose by 0.9 percent (down 0.9 percent year-on-year)
- The unemployment rate fell to 6.9 percent in October; the broader U6 measure fell to 12.1 percent

Total nonfarm employment rose by 638,000 jobs in October, with private sector payrolls up by 906,000 jobs and public sector payrolls down by 268,000 jobs. Prior estimates of job growth in August and September were revised up by a net 15,000 jobs for the two-month period. The unemployment rate fell to 6.9 percent, with household employment reported to have risen by 2.243 million jobs, which is a much larger than normal difference from the estimate of payroll job growth. The broader U6 rate fell to 12.1 percent, as the increase in household employment more than offset an increase in the number of those working part-time for economic reasons. Average hourly earnings were up 0.1 percent, while aggregate private sector wage and salary earnings were up by 0.9 percent.

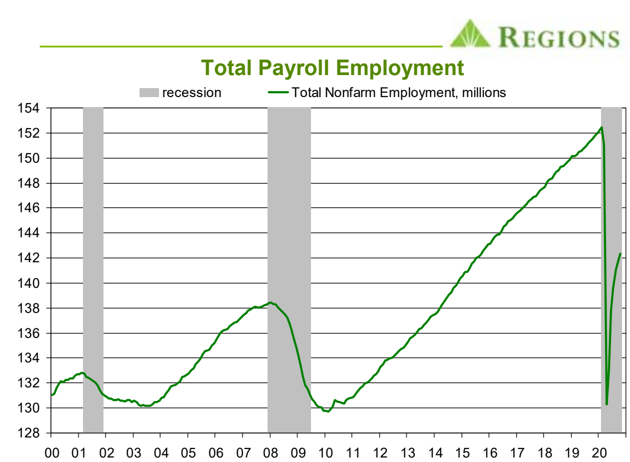
Our forecast anticipated private sector payrolls rising by 569,000, which was well short of the mark. As we discussed in our *Economic Preview*, we had anticipated disruptions in typical seasonal patterns in a number of industry groups, which would have translated into smaller increases in seasonally adjusted job growth. Instead, the not seasonally adjusted data show job growth in construction, distribution/delivery, retail trade, and leisure and hospitality services topped our expectations. Hiring associated with the economy opening back up merged with seasonal hiring to yield solid job gains in October. While we misread these patterns in the private sector data, we were correct in expecting smaller than normal increases in unadjusted state and local government payrolls would turn into declines in the seasonally adjusted data.

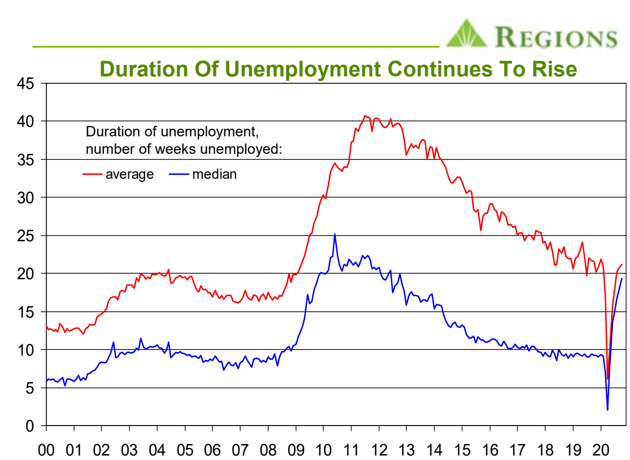
Construction payrolls rose by 84,000 jobs in October, with gains in both residential and nonresidential construction. This is an instance in which the raw, i.e., not seasonally adjusted, data show a much stronger than normal increase for the month of October, as unadjusted construction payrolls were up by 104,000 jobs. That residential construction payrolls rose further is no surprise, but the hiring in nonresidential construction is surprising. Manufacturing payrolls rose by 38,000 jobs, with small but broad based increases across most industry groups in the broader sector. On a seasonally adjusted basis, payrolls in leisure and hospitality services were up by 271,000 jobs in October, with 192,200 of these jobs coming from hiring amongst restaurants. These numbers are instances of friendly seasonal adjustment; in a "typical" October, unadjusted payrolls in leisure and hospitality services fall sharply, but this year rose by 158,000 jobs, reflecting ongoing adjustments to the economy opening back up, which yielded an even larger increase on a seasonally adjusted basis.

The labor force participation rate rose to 61.7 percent October from 61.4 percent in September; that the unemployment rate fell so sharply reflects the magnitude of the increase in household employment. In recent months we have expressed concern over the decline in participation amongst those in the 25-to-54 year-old age cohort, the "prime working age" population, particularly amongst females in this age cohort. The participation rate amongst this age cohort rose to 81.2 percent in October but remains well below January's rate of 83.1 percent. The participation rate amongst females in the 25-to-54 year-old age cohort rose to 74.6 percent in October but is still well off of January's rate of 77.0 percent.

The duration of unemployment continues to rise, with the median duration rising to 19.3 weeks in October, and 67.1 percent of those classified as being on temporary layoff had been out of work for 15 weeks or longer. Overall, the number of people out of work for 15 weeks or longer rose to 3.556 million, which is the highest number since March 2014. As the chart below indicates, duration peaked well after the end of the 2007-09 recession, and that will again be the case in the current cycle. This is worth keeping in mind, as many hold out the level of employment as of February, i.e., the cyclical peak, as a benchmark against which to measure the labor market's progress. In reality, however, returning to that mark will take a frustratingly long time, as some number, potentially a large number, of jobs lost in recent months will prove to be permanent.

The solid October employment report still leaves the labor market a long way from being fully healed, and the recent upturn in COVID-19 cases injects downside risks. That said, the recovery in the labor market has thus far been stronger than we expected or even hoped would be the case.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com