ECONOMIC UPDATE

REGIONS

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September Employment Report: Slowing Job Growth Still Leaves A Tight Labor Market

- Nonfarm employment rose by 263,000 jobs in September; prior estimates for July and August were revised up by 11,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.5 percent (up 8.7 percent year-on-year)
- The unemployment rate fell to 3.5 percent in September (3.493 percent, unrounded); the broader U6 measure fell to 6.7 percent

Total nonfarm employment rose by 263,000 jobs in September, slightly above the consensus forecast but short of our forecast of 337,000 jobs, with private sector payrolls up by 288,000 jobs and public sector payrolls down by 25,000 jobs. Prior estimates of job growth in July and August were revised up by a net 11,000 jobs for the two-month period, but this modest number masks some big swings; net job growth in the private sector was revised down by 62,000 jobs while net job growth in the public sector was revised up by 73,000 jobs. So, contrary to historical norms, the initial estimate of August job growth was not revised higher this year. Average hourly earnings rose by 0.3 percent, leaving them up 5.0 percent year-on-year, with aggregate private sector wage and salary earnings up 0.5 percent in August, good for a year-on-year increase of 8.7 percent. The unemployment rate fell to 3.5 percent on a drop in labor force participation, while the U6 rate, which accounts for both unemployment and underemployment, fell to 6.7 percent from 7.0 percent in July.

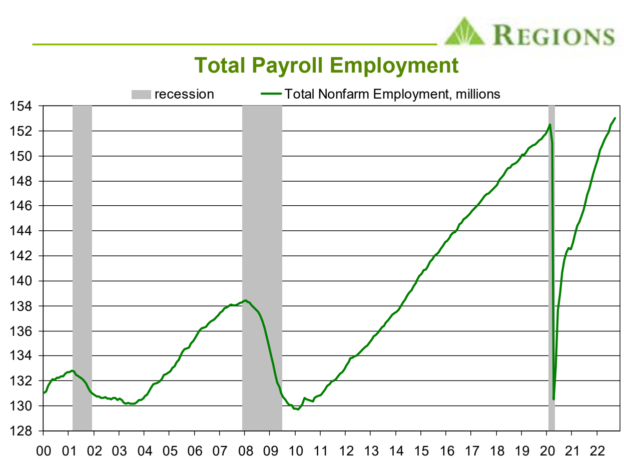
The lower unemployment rate did not come as a surprise to us. We noted last month that the spike in the labor force that led to the jobless rate rising to 3.7 percent in August was largely a seasonal adjustment mirage, with the bulk of the increase in the labor force coming from two groups – the 16-to-19 year-old age cohort, and females in the 45-to-54 year-old age cohort. We expected much of those spikes to reverse in the September data, and that proved to be the case. Indeed, overall female participation fell in September, though at the same time the number of females not in the labor force reporting that they want a job rose. The reality is that the data from the household survey are highly volatile from one month to the next, and looking beneath that volatility shows participation still lower than was the case prior to the pandemic but not far from where we think it will peak given the continued outflow of older workers.

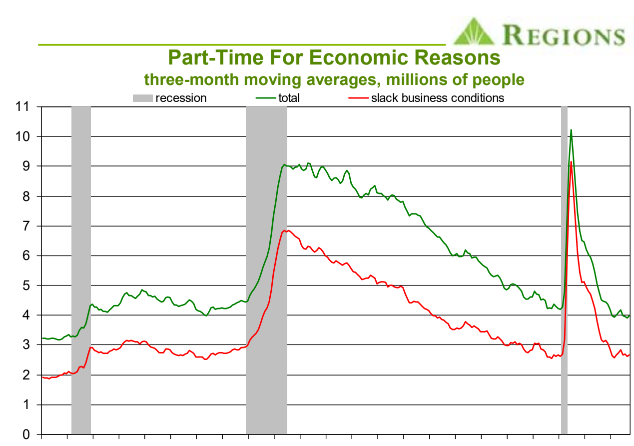
The decline in the broader U6 rate was triggered by fewer people working part-time for economic reasons. Moreover, the number reporting they were working part-time due to slack business conditions also fell in September. Again, given the inherent volatility in the household survey data, we're careful not to put too much stock in any single number from any single month, but even using a three-month moving average to smooth out this volatility shows no meaningful change in the number of people working part-time due to slack business conditions over the past several months. This is noteworthy in that you'd expect this number to be rising, perhaps sharply, if broader economic activity were slowing significantly. Obviously, that this hasn't happened yet doesn't mean it can't, or won't, happen, and we'll continue to watch this metric as a useful indicator of the extent to which the broader economy is slowing.

Job growth remained fairly broad based in September. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose from 61.5 percent in August to 61.9 percent in September, lower than had been the case over the prior several months but nonetheless above pre-pandemic levels. The breadth of job growth is another labor market indicator we rely on for signals on the broader economy. Private sector job growth was led by education and health services (+90,000) and leisure and hospitality services (+83,000), and these are "clean" numbers in that they are not inflated by seasonal adjustment. It is interesting to note that while the not seasonally adjusted data show construction payrolls fell in September, the decline was smaller than the typical September decline. Despite sharply slowing sales and construction in the single family segment, sizable backlogs of unfilled orders should temper layoffs in construction.

While average weekly hours remain low, at 34.5 hours, the decline from earlier this year is largely a function of hours worked in manufacturing drifting lower, which is in line with the softening in orders and production reported in the ISM's data. One consequence of the shorter average workweek is decelerating growth in aggregate private sector wage and salary earnings. But, at 8.7 percent, year-on-year growth in what is the largest component of personal income remains ahead of inflation.

Even with a slowing pace of job growth, the reality is that labor supply remains no match for labor demand. Job growth will slow further in the months ahead but will likely remain above what is needed to keep the unemployment rate steady.





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