ECONOMIC UPDATE

REGIONS

November 4, 2022

October Employment Report: Suspect Household Survey Data Don't Change Much

- Nonfarm employment rose by 261,000 jobs in October; prior estimates for August/September were revised up by 29,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.6 percent (up 8.0 percent year-on-year)
- The unemployment rate rose to 3.7 percent in October (3.680 percent, unrounded); the broader U6 measure rose to 6.8 percent

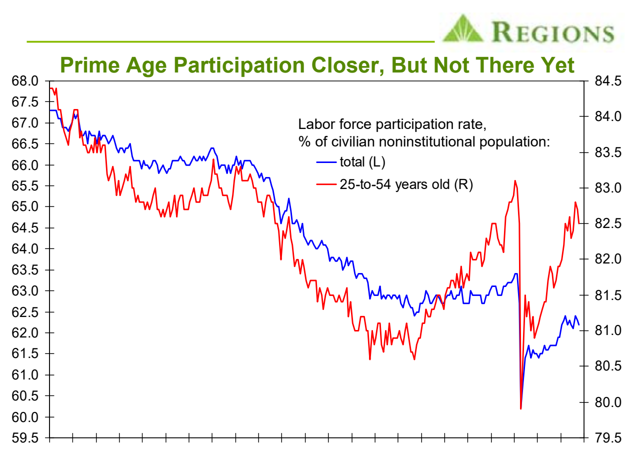
Total nonfarm employment rose by 261,000 jobs in October, topping our above-consensus forecast of 234,000 jobs, with private sector payrolls up by 233,000 jobs and public sector payrolls up by 28,000 jobs. Prior estimates of job growth in August and September were revised up by a net 29,000 jobs for the two-month period, but for the second straight month the net revision incorporates a downward revision to private sector job growth and an upward revision to public sector job growth. Job growth remained notably broad based across private sector industries, but holiday-related hiring got off to a soft start Average hourly earnings rose by 0.4 percent, leaving them up 4.7 percent year-on-year, the smallest such increase since August 2021, while aggregate private sector wage earnings rose by 0.6 percent, leaving them up 8 percent year-on-year. Despite another notch down in the labor force participation rate, which we expected, the unemployment rate rose to 3.7 percent on a decline in household employment, which we did not expect. Under the heading of "for what it's worth," the not seasonally adjusted data show increases in both the size of the labor force and the level of household employment in October, but smaller increases than are typical for the month. As such, we won't make too much out of the October data from the household survey, particularly given how inherently volatile the data from this survey are. The broader U6 measure, which also accounts for underemployment, ticked up to 6.8 percent, which was solely a function of a higher number of unemployed persons as the ranks of discouraged workers and working part-time for economic reasons fell in October.

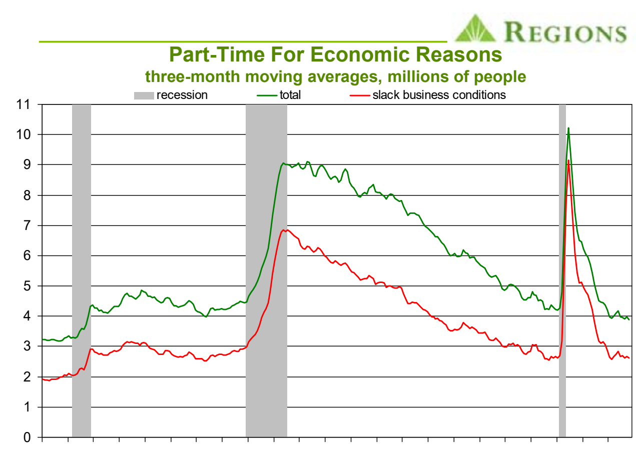
The decline in labor force participation looks somewhat suspect in that it is more than accounted for by declines amongst females in each of the broad age cohorts save for the 25-to-34 year-old and 55-and-over cohorts. More broadly, the overall participation rate fell back to 62.2 percent while the participation rate amongst the 25-to-54 year-old cohort, the "prime working age" population, fell to 82.5 percent from 82.7 percent in September. We'll once again note the inherent volatility in the data from the household survey, on clear display in our first chart. What we find to be more relevant is that the participation rate amongst the prime working age cohort is trending higher and is much closer to its pre-pandemic mark (83.1 percent) than is the case with the overall participation rate (63.4 percent). While we expect the prime-age participation rate to close this gap, we do not expect the overall rate to do so, reflecting exits amongst members of older age cohorts.

While the broader U6 rate rose in October, the number of those working part-time for economic reasons, which includes a decline in the number reporting they were working part-time due to slack business conditions. 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 a continued downward drift 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.

The not seasonally adjusted data show smaller than typical October gains in retail trade, warehousing, and courier/delivery services, areas in which October normally marks the start of hiring ramping up for the holiday season. In part, this reflects hiring having been stronger earlier in the year, and with firms in these industry groups downsizing expectations of needs during the holiday sales season that leaves less hiring to be done in October and November, so the next monthly employment report will be a good test of our take on this.

There has been no shortage of "what does this mean for the FOMC" takes on the October employment report; our take is virtually nothing. With inflation remaining elevated and the FOMC clinging to the premise of a Phillips Curve, they clearly have further to go. But, it seems more than a bit premature to conclude, as some already have, that this report alone means rate hikes will extend out even further – and higher – into 2023.





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