



This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

October Employment Report: Trend Rate Of Job Growth Continues To Slow

- › Nonfarm employment rose by 150,000 jobs in October; prior estimates for August and September were revised down by a net 101,000 jobs
- › Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings were flat (up 5.0 percent year-on-year)
- › The unemployment rate rose to 3.9 percent in October (3.879 percent, unrounded); the broader U6 measure rose to 7.2 percent

Total nonfarm employment rose by 150,000 jobs in October, below what we and the consensus expected, with private sector payrolls up by 99,000 jobs and public sector payrolls up by 51,000 jobs. Prior estimates of job growth in August and September were revised down by a net 101,000 jobs for the two-month period. October job growth was held down by the UAW strike and related layoffs across motor vehicle and parts production, which knocked 33,000 jobs from manufacturing payrolls. That said, even adding these jobs back in – as they will be in the November data with the strike having been settled – and accounting for a modest hit from unfavorable seasonal adjustment, this is a disturbingly weak report. Almost all of the reported increase in private sector payrolls is accounted for by health care/social services as the breadth of hiring elsewhere across the private sector narrowed sharply, the length of the average workweek fell across much of the private sector, which weighed heavily on aggregate labor earnings, and more people were working part-time due to slack business conditions. The unemployment rate rose to 3.9 percent, as our forecast anticipated, with declines in both the labor force and household employment. Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings were flat in October, leaving them up 5.0 percent year-on-year. As has been the case far too often over the past few years, we will once again note a weak response rate to the BLS’s establishment survey; at 58.3 percent, the response rate is the third lowest since the onset of the pandemic and the lowest October response rate since 2002. As we routinely note, such low response rates diminish the reliability of the initial estimates of nonfarm employment, hours, and earnings in any given month. A month ago, while many were lauding the September employment report, we were instead combing through the details and cautioning that there was less to that report than met the eye. And while the October report suggests a still-solid labor market, many of the details of the report give us pause.

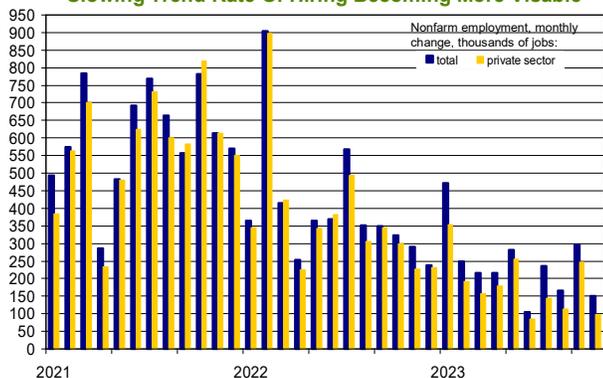
The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, tumbled to 52.0 percent in October, the lowest rate since April 2020. Moreover, prior estimates of the diffusion index for August and September were revised lower, which

continues a pattern seen over the past several months, i.e., job growth has subsequently been shown to be less broadly based than first estimated. To that point, payrolls in health care/social assistance rose by 77,200 jobs in October, accounting for the bulk of total private sector job growth. Payrolls in motor vehicles and parts production fell by 33,200 jobs while overall manufacturing payrolls fell by 36,000 jobs. As we noted in our weekly *Economic Preview*, we are now in the time of the year in which seasonal adjustment can easily work against the headline job growth number, which was indeed the case with the October data. Smaller than normal increases in unadjusted payrolls in retail trade and transportation and warehousing services led to the seasonally adjusted data showing a gain of only 700 jobs in the former and the loss of 12,100 jobs in the latter industry group. Keep in mind, however, that any such seasonal adjustment effects will be far more pronounced in the November data.

The average length of the workweek fell by one-tenth of an hour, and as we routinely note, such a seemingly innocuous change is equivalent to over 300,000 private sector jobs and has a powerful impact on growth in aggregate labor earnings. While a decline in hours worked in durable goods manufacturing was to have been expected given the UAW strike, several other industry groups also saw declines in average weekly hours. Just as with payrolls, we see some unfavorable seasonal adjustment in the data on average weekly hours in retail trade and transportation and warehousing services. From the household survey, the data show more people involuntarily working part-time in October, including an increase in the number doing so due to slack business conditions. The decline in the labor force participation rate was more than accounted for by a decline in female participation, which is basically the third time this year this has happened, which to us raises more questions than it answers. Either way, using the BLS’s mapping of household employment into a measure consistent with the payroll survey data yields a net gain in employment of 181,000 jobs over the past two months. While perhaps overstating the case, this is consistent with details in the data signaling a cooler labor market than implied by the headline job growth number. We think those signals will become more visible in the months ahead.



Slowing Trend Rate Of Hiring Becoming More Visible



One-Month Hiring Diffusion Index

