ECONOMIC UPDATE

REGIONS

October 6, 2017

September Employment Report: Nothing But Noise

- Nonfarm employment fell by 33,000 jobs in September; prior estimates for July/August were revised down by a net 38,000 jobs.
- Average hourly earnings rose by 0.5 percent; aggregate private sector earnings rose by 0.4 percent in September (up 4.3 percent year-on-year).
- The unemployment rate fell to 4.2 percent in September (4.220 percent, unrounded); the broader U6 measure fell to 8.3 percent.

Well, even Cal Ripken took a day off eventually. The reported decline of 33,000 jobs in September ends a streak of 83 consecutive months of job growth. Unlike Mr. Ripken, however, who ended his streak on his own, the end of the long run of job growth resulted from Hurricanes Harvey and Irma, which were concentrated in the states with the second (Texas) and fourth (Florida) highest job counts in the U.S. Private sector payrolls fell by 40,000 jobs and public sector payrolls rose by 7,000 jobs. While the BLS acknowledges, without quantifying, the effects of the hurricanes on the establishment survey data, they state there was "no discernable effect" on the household survey data. Even so, we suggest taking the reported decline in the unemployment rate with a huge grain of salt.

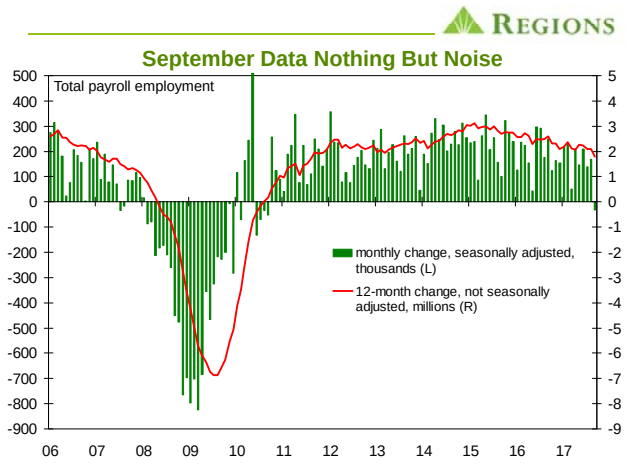
While no one is putting much stock in the headline jobs number, what many somehow seem to be missing is that if overall job counts were impacted by the hurricanes, then so too was the rest of the data in the establishment survey. For instance, the reported 0.5 percent increase in average hourly earnings is in large part a reflection of the industry mix of jobs impacted by the hurricanes. Payrolls in leisure & hospitality services are reported to have declined by 111,000 jobs in September, of which 104,700 came from restaurants and bars. Retail trade payrolls are reported to have fallen by 2,900 jobs, at least part of which is likely due to the hurricanes. Average weekly hours and average hourly earnings in these two industry groups are significantly below the overall averages, hence the removal of a large number of jobs in these industry groups will bias the overall average higher. Moreover, there was significant overtime in utilities, which means overtime pay in the industry with the highest average hourly wage. Yet, in the wake of the release of the employment report the discussion has focused on what the "significant acceleration" in wage growth will mean for the FOMC. Our answer: nothing.

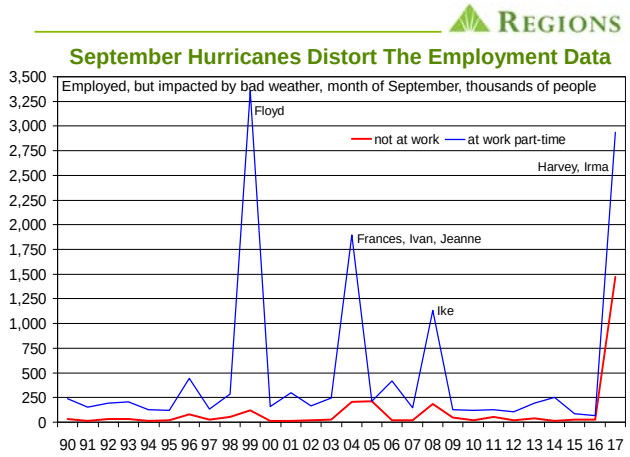
In September, 1.474 million people with a job did not work during the reference period due to the hurricanes, while 2.934 million worked part-time rather than full time due to the storms. Though these estimates come from the household survey and thus are not directly applicable to the establishment survey, we can get a glimpse of the extent to which the hurricanes disrupted labor market activity in Florida and Texas. Our chart below shows how September hurricanes have impacted employment patterns; only Floyd in 1999 caused more people to work part-time rather than full-time, but the number of those not working at all due weather this September is easily the highest of any September on record.

One key difference between the household and establishment surveys is that in the latter, one must be either at work or on paid leave at some point during the survey period to be counted as employed (and in turn for their normal hours and hourly earnings to count in the survey), which is not the case in the household survey. So, in that sense, one would expect the household data, from which the unemployment rate is calculated, to be relatively free of noise. Noise stemming from the hurricanes, that is. The drop in the unemployment rate comes from a reported increase in household employment of 906,000 persons, which easily offset the reported increase in the labor force of 575,000 persons. Anyone who tracks the household data knows wild swings from one month to the next are common, but even so those reported for September stand out, and, frankly, we don't put much stock in them.

It is worth commenting on the net downward revisions to prior estimates of job growth for July and August. The net downward revision of 38,000 jobs for the two-month period is highly concentrated in manufacturing, specifically motor vehicle production. We had noted normal seasonal patterns were distorted this year, as annual shutdowns were prolonged and some plants cut entire shifts due to swollen inventory levels, and it appears the revised data properly account for this.

There is very little in the September employment report that tells us anything meaningful about underlying labor market conditions. The same will be true of the October report, which will reverse much of what was reported for September. As such, we'd caution against drawing any hard conclusions from either one of these reports.





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