September Employment Report: Trend Rate Of Job Growth Is . . . Just Plain Nuts

- Nonfarm employment rose by 134,000 jobs in September; prior estimates for July/August were revised up by a net 87,000 jobs
- Average hourly earnings rose by 0.3 percent; aggregate private sector earnings rose by 0.4 percent in September (up 5.4 percent year-on-year)
- The unemployment rate fell to 3.7 percent in September (3.683 percent, unrounded); the broader U6 measure rose to 7.5 percent

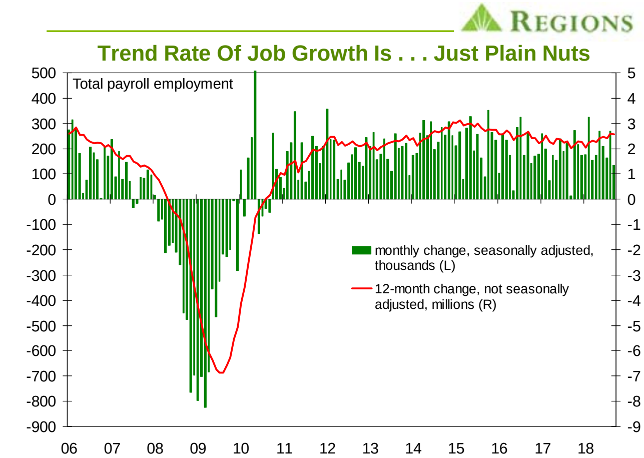
We didn't expect much, and we got less than we expected. Total nonfarm employment rose by 134,000 jobs in September, lagging our below-consensus forecast of 168,000, with private sector payrolls up by 121,000 jobs and public sector payrolls up by 13,000 jobs. Prior estimates of job growth for July and August were revised up by a net 87,000 jobs for the two-month period, which includes public sector job growth being revised up by 53,000 jobs. Average hourly earnings rose by 0.3 percent in September, leaving them up 2.8 percent year-on-year. The unemployment rate fell to 3.7 percent, the lowest since December 1969, and the broader U6 rate, which accounts for both unemployment and underemployment, ticked up to 7.5 percent from 7.4 percent in August.

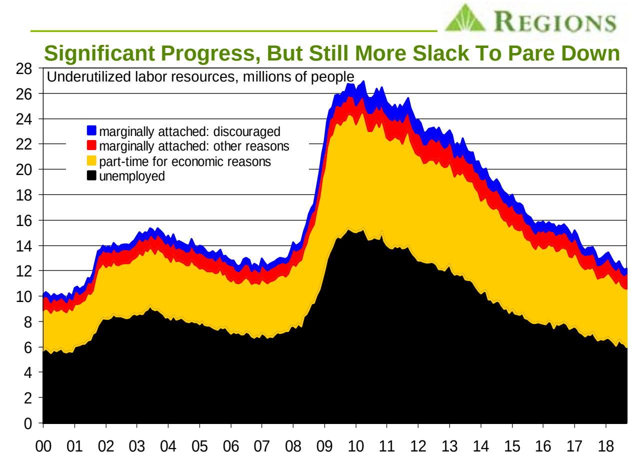
As we noted in our weekly *Economic Preview*, we set a low bar for the September employment report for two reasons – measured August job growth was biased higher by calendar effects, and Hurricane Florence hit during the reference week for the September establishment survey. In September (during the survey week), there were 299,000 people who did not work and another 1.489 million who worked only part-time rather than their normal full-time schedules due to weather conditions. While these numbers don't come close to matching those seen last September, when Hurricanes Harvey and Irma impacted the data, they are still much higher than is normal for the month of September. The state-level data, due mid-month, will give us more insight into the effects of Hurricane Florence, but we suspect it contributed to the reported declines in payrolls in retail trade and leisure & hospitality services in September.

Job growth remained notably broad based in September, with the one-month hiring diffusion index (a measure of the breadth of hiring across private sector industry groups) standing at 60.9 percent, and the index for the manufacturing sector standing at 62.5 percent. As we have often noted, job growth during this expansion has been more broadly based than at any point since the vaunted 1990s expansion. In September, the goods producing industries added a net 46,000 jobs, with 18,000 coming in the manufacturing sector, along with an upward revision to the initial August print that showed a decline in factory sector payrolls. Private sector service providing industry groups added just 75,000 jobs in September, but August's increase was revised up to 217,000, far above the trend rate. Again, we think the August number reflects the effects of a longer than normal break between the July and August survey periods, and the September number reflects the declines in retail trade (down by 20,000 jobs) and leisure & hospitality services (down by 17,000 jobs) that we think were in part related to Hurricane Florence. As our regular readers know, we constantly stress the importance of looking at the underlying trends in the data rather than any one monthly data point, and the employment data are no exception. September's soft headline print notwithstanding, over the past 12 months the U.S. economy has added an average of 214,000 jobs per month (shown by the red line in our first chart below), a number that is, to use a highly technical term, just plain nuts for this stage of an expansion.

That job growth remains so robust and wage pressures remain fairly muted even with the lowest unemployment rate in 50 years largely reflects, at least in our view, the degree of slack that remains in the labor market. One beneath the headlines data series that we watch closely but which gets little attention elsewhere tracks flows into and out of the labor force. For instance, 4.7 million people transitioned from not being in the labor force in August to being employed in September, and this figure has averaged over 4.5 million per month over the past 22 months. While this cannot last forever, we think it has further to run, particularly as the cyclical portion of the decline in participation amongst the prime working age (i.e., 25-to-54 years old) population has yet to be totally unwound. While remaining labor market slack may well be weighing down growth in average hourly earnings, what is of far more significance is growth in aggregate wage and salary earnings, which has been running at a better than 5.0 percent pace (year-on-year) over the past four quarters.

The bottom line is that, the soft headline print on the September job report notwithstanding, the labor market remains rock solid.





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