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October Employment Report: Labor Market Remains Rock Solid

- Nonfarm employment rose by 250,000 jobs in October; prior estimates for August/September were, on net, unchanged
- Average hourly earnings rose by 0.2 percent in October; aggregate private sector earnings rose by 0.7 percent (up 5.5 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in October (3.735 percent, unrounded); the broader U6 measure fell to 7.4 percent

Total nonfarm employment rose by 250,000 jobs in October, besting our above-consensus forecast of an increase of 208,000 jobs. Private sector payrolls were up by 246,000 jobs in October, public sector payrolls were up by 4,000 jobs, and with an upward revision to August job growth and a downward revision to September job growth, prior estimates of job growth for the two-month period were, on net, unchanged. Average hourly earnings were up by 0.2 percent, leaving them up 3.1 percent year-on-year, though there is less to that number than meets the eye, and the unemployment rate held steady at 3.7 percent while the broader U6 measure, which accounts for both unemployment and underemployment, slipped to 7.4 percent from 7.5 percent in September.

The 3.1 percent year-on-year increase in average hourly earnings, the largest such gain since April 2009, is getting considerable attention, with analysts weighing in on what this means for inflation and, in turn, monetary policy. The reality, however, is that the year-on-year increase says more about how weak earnings were last October than it does about how strong they were this October. Last October saw sizeable numbers of lower-wage workers return to the employment rolls after having been displaced by Hurricanes Harvey and Irma, which biased average hourly earnings lower – they fell by 0.2 percent last October, thus setting up the large year-on-year increase seen this October. This illustrates a key flaw of the average hourly earnings metric – it is sensitive to the mix of jobs. Earlier this week we got reads on wage growth from the Q3 Employment Cost Index and from the Q3 data on labor productivity, both of which show wage growth accelerating but still shy of the 3.0 percent mark. We'll also reiterate another point we often make, which is that growth in average hourly earnings is less important than growth in aggregate wage and salary earnings, which account for the number of people working, how many hours they work in each period, and what they earn for each hour worked. As we show in our second chart below, aggregate wage and salary earnings for private sector workers have been growing at a better than 5.0 percent clip for some time now, easily outpacing inflation and underpinning what has been solid growth in consumer spending.

As to October's job growth, leisure & hospitality payrolls rose by 42,000 jobs and retail trade payrolls were up by 2,400 jobs. These gains in part reflect payback for September, when workers in these industries, mainly in the Carolinas, were displaced by Hurricane Florence – retail trade payrolls fell by 32,400 jobs and leisure & hospitality services payrolls were flat in September. One thing that catches our eye is the miniscule increase in retail trade payrolls in October, which typically marks the start of holiday season hiring. We think this has more to do with the October survey week falling so early in the month than it does about the state of expectations for holiday sales, as hiring later in the month would not have been picked up in the October establishment survey. We'll know more when we see the November data which, if we're correct on this point, will show a larger bump in retail payrolls than is normal for the month.

Hiring remained broad based in October, with the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rising to 65.7 percent. Job growth in the goods producing industries was notably strong, with an increase of 67,000 jobs. This includes a 32,000 job increase in manufacturing payrolls that should help allay any concerns caused by the dip in October's ISM Manufacturing Index. Payrolls in education & health services were up by 44,000 jobs and business services added 35,000 jobs. While BLS states there were no discernable effects from Hurricane Michael, the household survey data suggest otherwise; the numbers of people either not at work at all or working part-time rather than full-time due to weather are significantly higher than is normal for the month of October.

Supported by what are still notably large inflows into the labor force each month, robust job growth – an average monthly increase of 210,000 jobs over the past 12 months – can be sustained for some time longer. Job growth remains broad based, which also suggests the robust pace of job growth can be sustained. Growth in aggregate labor earnings is picking up pace, easily outrunning inflation. All in all, the October employment report is further affirmation that the labor market remains rock solid.

