ECONOMIC UPDATE
REGIONS
October 4, 2019



## September Employment Report: Not Great, But Then, It Didn't Have To Be . . .

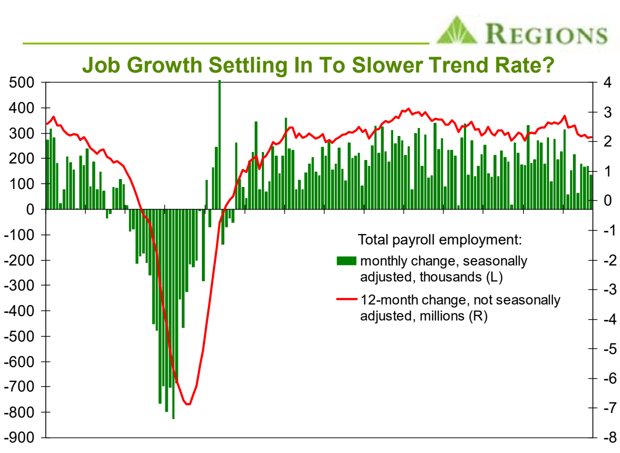
- Nonfarm employment rose by 136,000 jobs in September; prior estimates for July/August were revised up by a net 45,000 jobs
- Average hourly earnings were unchanged in September; aggregate private sector earnings were unchanged
- The unemployment rate fell to 3.5 percent in September (3.517 percent, unrounded); the broader U6 measure fell to 6.9 percent

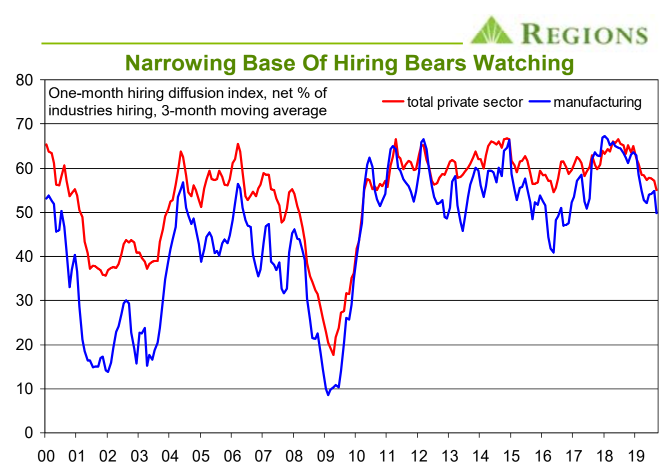
Total nonfarm employment rose by 136,000 jobs in September, shy of our forecast of 151,000, with private sector payrolls up by 114,000 jobs and public sector payrolls up by 22,000 jobs. Prior estimates of job growth in July and August were revised up by a net 45,000 jobs for the two-month period, though an upward revision to public sector hiring accounted for more than half of the total upward revision. As we expected would be the case, the upward revision to the initial estimate of private sector in hiring was smaller than the average revision over the past decade, but the broader pattern in which private sector hiring in the month of August is understated in the initial estimate remains intact. The unemployment rate dropped to 3.5 percent in September, the lowest since December 1969, with the broader U6 rate falling to 6.9 percent. Average hourly earnings were flat for the month, thanks in part to calendar effects, leaving them up 2.9 percent year-on-year.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, was little changed, rising from 53.5 percent in August to 53.7 percent in September. We place great emphasis on the hiring diffusion index as an early indicator of turns in the business cycle, as a steadily narrowing base of hiring is a sign of an expansion running out of steam. One of the hallmarks of the current expansion is that job growth has been so notably broad based, but the breadth of hiring has narrowed over recent months, and this certainly bears watching in the months ahead. The goods producing industries added only 5,000 jobs in September, with a 7,000 job increase in construction payrolls offsetting a 2,000 job decline in manufacturing payrolls while payrolls in mining & natural resources were unchanged. Payrolls amongst motor vehicle producers fell by 4,100 jobs in September, but this is not related to the GM strike, as the strike began after the September survey week. Instead, the decline in September reflects the ongoing slowdown in the pace of motor vehicle sales which has left producers and dealers sitting on growing inventories of unsold vehicles. Should it still be going, the GM strike will impact the October employment data. Private sector service providing industries added 109,000 jobs in September, led by education & health services (up 40,000 jobs) and business services (up 34,000 jobs). We've been pointing to softening freight markets as a natural extension of weakness in the factory sector and diminished trade flows, and this is reflected in payrolls in truck transportation falling by 4,200 jobs in September after a decline of 5,100 jobs in August, with further job losses in this category likely over coming months. At the same time, however, steady hiring amongst delivery services and warehousing operations is the flip side of the ongoing decline in retail trade employment, though there will not be an exact offset nor will the geographic profile of hiring in these industry groups match the geographic profile of job losses in retail trade, with the latter being more dispersed than the former.

In months in which the survey period ends prior to the 15th of the month, it is common to get a weak print on average hourly earnings. This was the case in September, which helps account for hourly earnings being unchanged. At the same time, however, the mix of jobs in September was not kind to growth in hourly earnings, with the paltry increase in payrolls amongst the goods producing industries. We've also pointed to another meaningful, yet underappreciated, drag on wage growth, which is the large number of people transitioning from not in the labor force in one month to employed in the next month. This number has averaged better than 4.5 million per month over the past three years, and topped this mark in September. Our point is that people who have been out of the labor force for some time or are entering the labor force for the first time have less bargaining power when it comes to wages, and the sheer size of these inflows has been acting as a drag on measured growth in average hourly earnings, which we expect will continue over coming months. What is far more relevant is that aggregate private sector wage and salary earnings continue to grow at a better than 5.0 percent clip.

Despite having slowed, job growth remains more than sufficient to keep downward pressure on the jobless rate. To us, the key indicator to watch over coming months will be the breadth of job growth which, at present, is telling us this expansion still has further to run.

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