ECONOMIC UPDATE
REGIONS
October 8, 2021

September Employment Report: Much More Noise Than Signal

- Nonfarm employment rose by 194,000 jobs in September; prior estimates for July/August were revised up by 169,000 jobs
- Average hourly earnings rose by 0.6 percent while aggregate private sector earnings rose by 1.5 percent
- The unemployment rate fell to 4.8 percent in September (4.756 percent, unrounded); the broader U6 measure fell to 8.5 percent

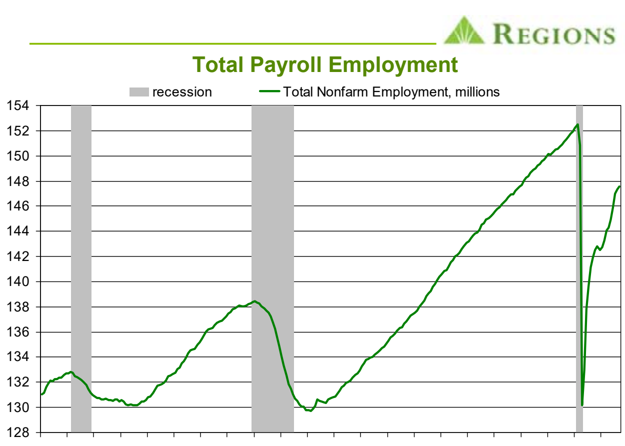
Total nonfarm employment rose by 194,000 jobs in September, well below what we and the consensus expected, with private sector payrolls up by 317,000 jobs and public sector payrolls down by 123,000 jobs. As expected, there was a meaningful upward revision to the initial estimate of August job growth, with nonfarm payrolls now reported to have risen by 366,000 jobs rather than the initial print of 235,000 jobs. Along with further upward revision to prior estimates of job growth in July, the net upward revision for combined July and August job growth is 169,000 jobs, marking the third consecutive month in which the net upward revision for the prior two-month period was over 100,000 jobs. As has been the case across a wide swath of the economic data since the onset of the pandemic, the September employment report is riddled with seasonal adjustment noise, the most visible instance of which is the education segment of local government. On a not seasonally adjusted basis, payrolls in this segment rose by 718,000 jobs in September, but the seasonally adjusted data show a decline of 144,200 jobs. Average hourly earnings rose by 0.6 percent in September which, along with the increases in the average weekly hours and private sector payrolls, pushed aggregate private sector wage and salary earnings up 1.5 percent, though there was a downward revision to August's growth. The unemployment rate fell to 4.8 percent, but this is largely due to a decline in labor force participation.

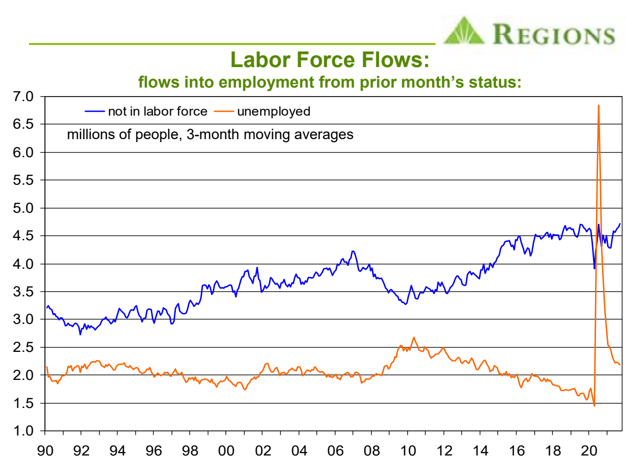
To be sure, we knew the September seasonal adjustment factor used to adjust payrolls in the education segments of state and local governments would be unfavorable, but we anticipated stronger hiring in September than is typical for the month after hiring in August fell short. This led to our expectation that public sector hiring would add to overall job growth. As it turns out, unadjusted hiring in the education segment in September fell short of our expectations, in part due to an upward revision to the August estimate, such that on a seasonally adjusted basis state and local government education took 160,800 jobs off of September job growth. This only matters because it doesn't matter, or at least should not matter in terms of how anyone should be assessing labor market conditions. It is also worth noting that in some instances, such as leisure and hospitality services, construction, and retail trade, seasonal adjustment worked in favor of measured September job growth, as we expected to be the case.

Health care also stands out as a notable drag on September job growth. Payrolls in health care fell by 17,500 jobs, but hospital payrolls fell by 8,100 jobs and payrolls amongst nursing and residential care facilities fell by 37,600 jobs – these declines were partially offset by hiring in ambulatory health care services. The job losses amongst health care facilities are apparent in the not seasonally adjusted data, raising the question of whether vaccination mandates led to workers either leaving voluntarily or being let go for failure to comply. This also raises the question of whether more broadly based vaccination mandates may have similar effects in other industry groups. While in a different world it would go without saying, we're not making any judgments or any type of statements one way or the other, we're simply raising a question.

On the whole, the earnings details in the September employment report are favorable. As noted above, aggregate private sector wage and salary earnings rose by 1.5 percent in September, reflecting job growth, wage growth, and a two-tenths of an hour increase in the average length of the workweek. September's gain is somewhat diminished by a downward revision to the initial estimate of growth in August but, on the whole, this leaves annualized Q3 growth in private sector wage and salary earnings at 10.3 percent. This is meaningful given that private sector labor earnings are easily the largest single component of personal income, and with pandemic-related transfer payments running their course, wage growth will resume its usual role as the main driver of income growth.

The decline in the labor force is more than accounted for by a decline in the 25-to-54 year-old age cohort, often referred to as the "prime working age" population. There is nothing in the September data to suggest the end of supplemental unemployment insurance benefits triggered either a mass inflow into the labor force or a significant flow from unemployment to employment. The reality was never that simple, and depressed labor force participation is likely to remain an issue for some time to come.





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