ECONOMIC UPDATE

REGIONS

November 5, 2021

October Employment Report: A Solid Report, But Labor Supply Remains A Vexing Problem

- Nonfarm employment rose by 531,000 jobs in October; prior estimates for August/September were revised up by 235,000 jobs
- Average hourly earnings rose by 0.4 percent while aggregate private sector earnings rose by 0.5 percent
- The unemployment rate fell to 4.6 percent in September (4.595 percent, unrounded); the broader U6 measure fell to 8.3 percent

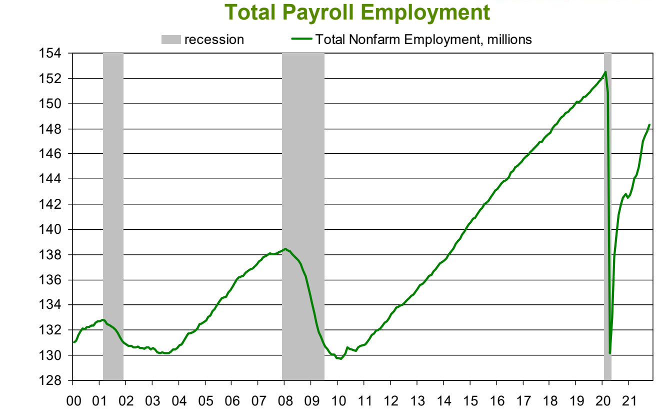
Total nonfarm employment rose by 531,000 jobs in October, a bit ahead of our above-consensus forecast of 503,000 jobs, with private sector payrolls up by 604,000 jobs and public sector payrolls down by 73,000 jobs. In keeping with the pattern of meaningful upward revisions to estimates of job growth in prior months, earlier estimates for job growth in August and September were revised up by a net 235,000 jobs for the two-month period. This is the fourth straight month in which the net upward revision for the prior two-month period topped 100,000 jobs. While there was some seasonal adjustment noise in the October data, it was pretty much of a wash, biasing job counts higher in leisure and hospitality services and lower in state/local government in the seasonally adjusted data. Average hourly earnings rose by 0.4 percent while the average length of the workweek slipped by one-tenth of an hour, both to some extent swayed by the mix of jobs. The unemployment rate fell to 4.6 percent, matching our below-consensus forecast, but the labor force participation rate held steady, and there are still over three million fewer people in the labor force than there were prior to the pandemic.

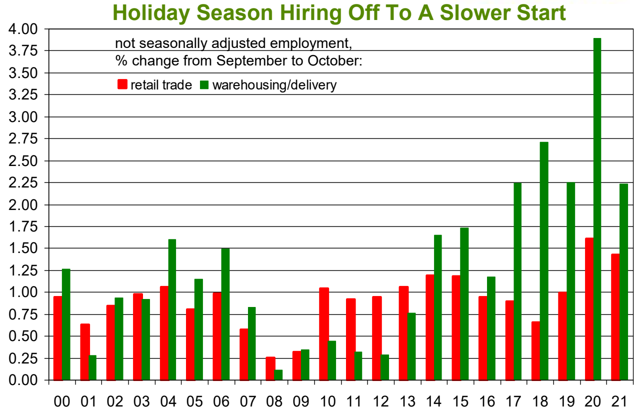
The not seasonally adjusted data show that combined state and local government payrolls in the education segment increased by 330,400 jobs in October. As this is smaller than the typical October increase, however, the seasonally adjusted data show a decline of 64,900 jobs. Conversely, in a typical October, not seasonally adjusted payrolls in leisure and hospitality services decline by about 2.0 percent. This year, however, payrolls in this industry group rose by 0.2 percent, or, by 28,000 jobs. With the seasonal adjustment factor geared for a sizable decline, the result is that seasonally adjusted payrolls in leisure and hospitality services rose by 164,000 jobs in October. Seasonal patterns have been distorted since the onset of the pandemic across the body of economic data, and that will remain the case for several more months.

Another place we are likely to see seasonal adjustment noise is in hiring tied to the holiday season, primarily in retail trade and warehousing and delivery services. Typically, holiday-related hiring in these segments will start to ramp up in October, and while there was no reason to think that firms would not engage in typical holiday season hiring this year, our questions revolved around their ability to actually do so. Several large retailers and delivery services announced holiday hiring plans that, in the context of pressing labor supply constraints, seemed a bit ambitious. The not seasonally adjusted data show the smallest (percentage) increase in payrolls amongst warehousing and delivery services since 2016. While the percentage increase in unadjusted retail trade payrolls is much smaller than in 2020, it is well above the prior several Octobers. Obviously hiring patterns in 2020 were disrupted by the economy shutting down and the subsequent reopening, but, relative to the patterns in place prior to the pandemic, our sense is that labor supply constraints will leave this year's holiday season hiring short of normal levels.

Overall, job growth was more broadly based in October than had been the case over the prior several months. The one-month hiring diffusion index, which measures the breadth of hiring across private sector industry groups, rose to 71.8 percent. Manufacturing payrolls were up by 60,000 jobs, and what stands out here is that payrolls amongst motor vehicle producers rose by 27,700 jobs. Recall that many producers have been running at well less than full capacity due to the global chip shortage, and it could be that they are calling workers back in order to begin ramping up production, which remains significantly depressed.

The labor force participation rate held steady at 61.6 percent in October, with participation amongst the 25-to-54 year-old age cohort, the "prime working age population," ticking up to 81.7 percent from 81.6 percent in September. Still, as with the overall labor force, participation amongst this age cohort remains well below pre-pandemic norms, particularly amongst females. We think it worth pointing out that the data on labor force flows show that while there was a significant increase in the number of people entering the labor force in October, there was also a significant increase in the number of people exiting the labor force, particularly those transitioning from employed to not in the labor force. The net result was little change in the overall size of the labor force. Depressed participation lingers as a threat to the pace of job growth in the months ahead.





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