ECONOMIC UPDATE
REGIONS
October 6, 2023

September Employment Report: We Are Not Impressed. And You Shouldn't Be Either . . .

- Nonfarm employment rose by 336,000 jobs in September; prior estimates for July and August were revised up by a net 119,000 jobs
- Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings rose by 0.4 percent (up 5.6 percent year-on-year)
- The unemployment rate was unchanged at 3.8 percent in September (3.787 percent, unrounded); the broader U6 measure fell to 7.0 percent

So far, we've seen it described as a "blowout" report, as proof that the U.S. economy is "unshakable" and immune to higher interest rates, and as "all but assuring" the FOMC will have to push the Fed funds rate even higher, all of which, of course, accounts for why the financial markets seem to be taking the September employment report so badly. As for us, we don't see the September employment report as being any of those things, the "sizzling" headline job growth number notwithstanding. Total nonfarm employment rose by 336,000 jobs in September, easily ahead of expectations, with private sector payrolls up by 263,000 jobs and public sector payrolls up by 73,000 jobs. At the same time, prior estimates of job growth in July and August were revised up by a net 119,000 jobs for the two-month period, ending a run of meaningful downward revisions. It would seem hard to argue that those numbers paint a picture of anything other than a still-robust job market, particularly coming on the heels of the latest JOLTS data showing a surge in job openings. And, sure, anyone is free to have any reaction they choose to any number they choose to react to, which in our case means going past the headline numbers and into the details of the data, including the not seasonally adjusted data. On that basis, the September employment report looks far less impressive.

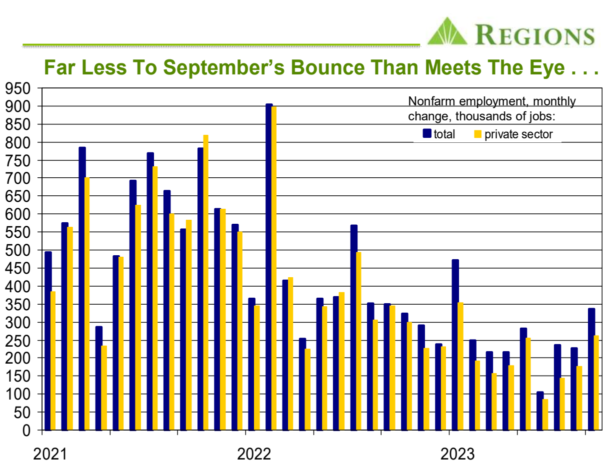
Let's start with the revisions to the July and August data. Net private sector job growth for the two-month period was revised down by a net 12,000 jobs while net public sector job growth was revised up by 131,000 jobs. Recall that in our analysis of the August data we noted how odd it was that payrolls in the education segment of state and local government were reported to have fallen by over 38,000 jobs in a month in which the new school year started. Revisions now show an increase in education payrolls in August, contributing to the net upward revision in public sector payrolls, but to us the bigger story would be, or should be, the net downward revision to private sector payrolls. The state and local government sector is rife with seasonal adjustment issues stemming from different start/end dates for school years, and that is again the case.

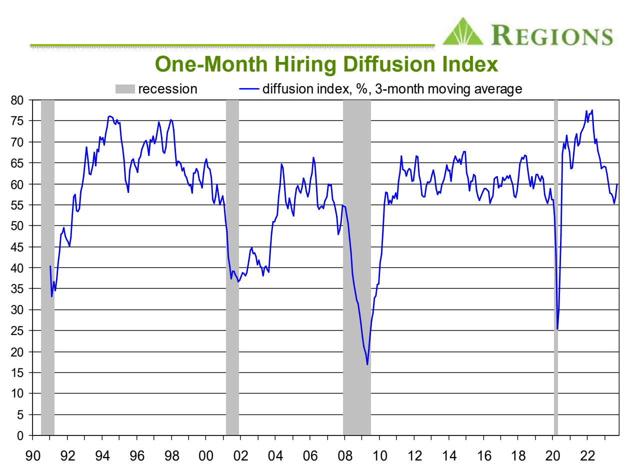
Moreover, seasonal adjustment noise yielded a sizable increase in state and local government payrolls outside of education in the September data, adding twenty-seven thousand jobs to the seasonally adjusted job growth number. Seasonal adjustment also flattered measured job growth in leisure and hospitality services, with payrolls reported to have risen by 96,000 jobs on a seasonally adjusted basis, with restaurants adding 60,700 jobs. The unadjusted data, however, show declines of 466,000 jobs and 186,800 jobs, respectively. While payrolls in these areas typically fall in September, this year's declines were far smaller than normal for the month, hence the jumps reported in the seasonally adjusted data. As we've noted, hiring in these areas was weaker over the summer than is typical, which leads to the smaller declines in the fall. Retail trade and construction are other areas in which smaller than normal September declines in the raw data yielded increases on the seasonally adjusted data.

We've for some time pointed to low response rates to the BLS's establishment survey as a source of noise in the estimates of nonfarm employment, hours, and earnings. The response rate to the September survey was 68.2 percent, and while that was up from a ridiculously low 59.3 percent in August, it is nonetheless the lowest September response rate since 2005, another reason to not get too attached to the initial estimate of September job growth. This perhaps helps account for the much more tepid message sent by the household survey, with household employment up by only 86,000 persons and fewer people transitioning from not in the labor force to employed than seen in several months.

Job growth was more broadly based across the private sector than was the case in the prior two months, both of which were revised down. Neither the start of the UAW strike nor the settlement of the Hollywood writers strike impacted the September data, as both came after the survey period. The effects of both will be seen in the October data.

We're well aware that our take on the September employment report puts us at odds with many, if not most, others, and we're fine with that. If someone who has actually gone through the details of the data, including the not seasonally adjusted data, can make a case that we're wrong, we're more than happy to listen. For now, we continue to see clear signs of softening labor market conditions.





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