ECONOMIC UPDATE

REGIONS

October 4, 2024

September Employment Report: September Data Deliver An October Surprise

- Nonfarm employment rose by 254,000 jobs in September; prior estimates for July and August were revised up by a net 72,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.2 percent (up 4.8 percent year-on-year)
- The unemployment rate fell to 4.1 percent in September (4.069 percent, unrounded); the broader U6 measure fell to 7.7 percent

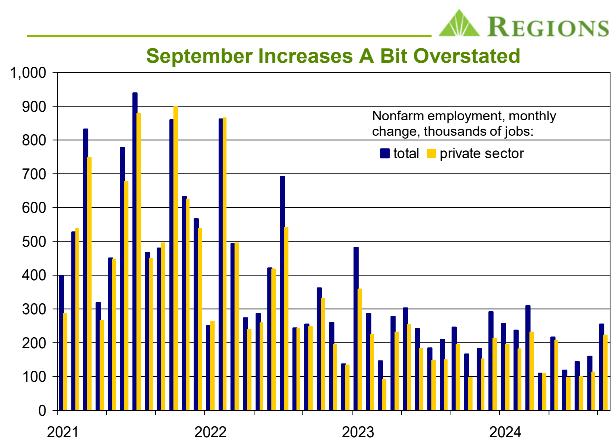
Total nonfarm employment rose by 254,000 jobs in September, easily above our forecast of 206,000 jobs and even further above the consensus forecast of 150,000 jobs. Private sector payrolls were up by 223,000 jobs and public sector payrolls were up by 31,000 jobs, while prior estimates of job growth in July and August were revised up by a net 72,000 jobs for the two month period, in stark contrast to the pattern of net downward revisions that had prevailed since early-2023. Job growth was more broadly based across private sector industry groups than in any month since January. Average hourly earnings rose by 0.4 percent, but at the same time the average length of the private sector workweek fell by one-tenth of an hour. Thus, despite the hefty gain in payrolls, total private sector wage and salary earnings rose by just 0.2 percent in September, though this does leave them up 4.8 percent year-on-year. The unemployment rate fell to 4.1 percent, as the increase in the size of the labor force was well smaller than the gain in household employment. The broader U6 measure which also accounts for underemployment, fell to 7.7 percent from 7.9 percent in August, largely on a drop in the number of those working part-time for economic reasons.

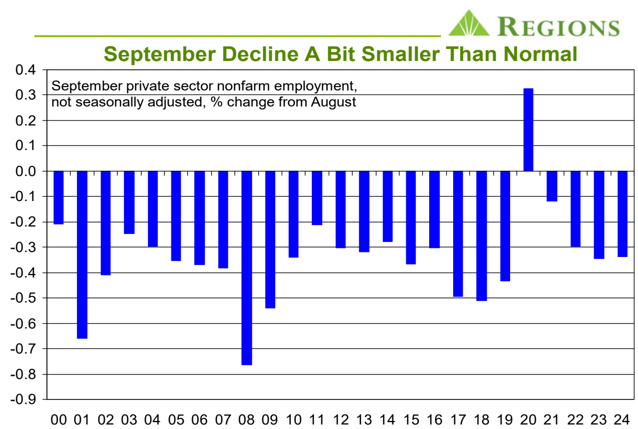
As our long-time readers well know, regardless of how close to/how far from to hitting the mark our forecasts come, we treat every single data release in exactly the same manner, i.e., by going to the details of the data to help put the headline number(s) in proper context. The September employment report is no exception. In accounting for our well above-consensus forecast, we noted in our preview of the report that we thought there would be strong seasonal adjustment effects that flattered the headline job growth number, stemming from what we expected would be a smaller than normal September decline in private sector payrolls. We pointed to construction, retail trade, and leisure and hospitality services as potential sources of seasonal adjustment noise. That proved to be the case, with leisure and hospitality services the most obvious instance. The unadjusted data show payrolls in leisure and hospitality services fell by 458,000 jobs, a hefty decline to be sure but in percentage change terms this was smaller than the typical September decline. As such, the seasonally adjusted data show payrolls in this industry group rose by 78,000 jobs. We can point to similar, albeit smaller, effects in both construction and retail trade. At the same time, we'll caution that starting with the October employment report, seasonal adjustment effects could, and we think will, make job growth look weaker than will actually be the case. While on the topic of noise, we'll further note that the initial collection rate for the September establishment survey was 62.2 percent, the lowest such rate for the month of September since 2002.

There is also seasonal adjustment noise in the household survey data. The increase in the labor force and nearly all of the entire increase in household employment are accounted for by the 16-to-24 year-old age cohort. This reflects no more than the not seasonally adjusted data showing much smaller than normal September outflows, which in turn are the flip side of much larger than normal August outflows, amongst this age cohort. This is merely an illustration of how changes in the timing of the school year from one year to the next can confound the seasonal adjustment process. We will note that participation amongst the "prime working age" cohort, those between 25 and 54 years-old, slipped for a second straight month but, at 83.8 percent in September, the participation rate amongst this cohort remains easily above pre-pandemic norms.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 57.6 percent which, as noted above, is the highest reading since January. One source of weakness, however, is manufacturing, where payrolls fell by 7,000 jobs after having fallen by 27,000 jobs in August (note – the September data do not reflect any impacts of the Boeing strike). Payrolls amongst motor vehicle producers fell, reflecting a slowing pace of assemblies in response to an unwanted build in inventories. The drop in average weekly hours is also noteworthy but, as it is concentrated amongst business services, is less concerning than it may seem on the surface. Broader based declines across industry groups, however, would be a worrisome sign.

Amid the ups and downs of the recent monthly employment reports, our view of the labor market hasn't wavered, nor has it changed after the September report. Cooling, not collapsing, reflecting slowing hiring without rising layoffs, remains our view on the state of the labor market.





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