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Tight US labor market supports continued Fed action

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Employment change (thousands, unless otherwise noted)	Sep 22	Aug 22	Jul 22	Jun 22	May 22
Unemployment rate (%)	3.5	3.7	3.5	3.6	3.6
Avg. hrly earn all (Monthly % Chg)	0.3%	0.3%	0.5%	0.4%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.3%	0.5%	0.1%	0.4%
Nonfarm employment	263	315	537	293	386
Total private	288	275	448	346	331
Goods-producing	44	35	63	43	61
Construction	19	11	21	10	35
Manufacturing	22	27	37	25	19
Priv. Serv providing	244	240	385	303	270
Wholesale trade	11	16	16	10	13
Retail trade	-1	43	16	22	-44
Transp. & Warehousing	-8	5	18	16	38
Information	13	5	16	26	26
Financial	-8	7	7	5	10
Business services	46	54	84	90	69
Temporary help	27	13	13	7	5
Education, health	90	75	122	94	78
Leisure, hospitality	83	31	89	43	69
Government	-25	40	89	-53	55
Federal Government	2	-2	8	-12	1

Source: Haver Analytics

- Hiring remained brisk in the US in September, showing that the Fed has more work to do to meet its goal of taming an overheated economy. The 263K jobs created were slightly above the consensus of 255K, and were bolstered by an 11K upward revision to the prior two-month job tally. The health care and leisure and hospitality sectors posted the largest increases in jobs, with other industries mostly seeing modest gains. The household survey recorded a 204K increase in jobs, and combined with a modest retrenchment in the labor force participation rate, that left the unemployment rate two ticks lower at 3.5% (vs. 3.7% expected). Wage growth continued at 0.3% m/m pace, leaving wages up by 5.0% over the past year, which remains too high to be consistent with 2% inflation.
- The hiring in the leisure and hospitality sector still leaves employers in that industry 1.2mn employees short relative to pre-pandemic levels, as many workers switched industries during the pandemic. The labor shortage in the industry is being amplified by the rotation in demand towards services and away from goods.

- The manufacturing sector added to headcounts and posted a solid 0.4% increase in hours worked for production employees, suggesting that some improvement in supply chains is supporting activity. The construction sector also added jobs, while government and retail trade were the only industries to shed jobs. The fact that we haven't seen material layoffs in interest-sensitive sectors yet suggests that those sectors may have been understaffed at the start of the year, and are now adequately staffed in the face of slower demand.
- The household survey has generally lagged the payrolls data recently, and that extended into September. The 57K decline in the labor force included an increase in discouraged workers, who believed that no jobs were available. The prime-age group (25-54 year old) saw a modest decline in the participation rate, leaving it 0.4%-points below pre-pandemic levels, and leaving room for a recovery ahead, while retirements associated with the aging population will continue to weigh on overall participation.

Implications & actions

Re: Economic forecast —While the deceleration in hiring is a welcome sign for the Fed, the pace of job gains remains above what's needed to open up slack in the labor market, and the Fed will remain on track to conduct further outsized hikes over the rest of the year as a result. The growth in aggregate hours worked over Q3 (2.4% annualized) suggests that GDP growth around the 2% mark is attainable even with softness in goods-producing sectors of the economy.

Re: Markets — Yields increased slightly following the upside surprise, while the USD strengthened and equity futures declined.