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US Non-farm payrolls: Fed to be on hold in December

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Employment change (thousands, unless otherwise noted)	Sep 25	Aug 25	Jul 25	Jun 25	May 25
Unemployment rate (%)	4.4	4.3	4.2	4.1	4.2
Avg. hrly earn all (Monthly % Chg)	0.2%	0.4%	0.3%	0.2%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.2%	0.1%	0.6%	-0.1%	0.4%
Nonfarm employment	119	-4	72	-13	19
Total private	97	18	56	-27	69
Goods-producing	10	-32	-16	-21	-13
Construction	19	-14	-3	-2	2
Manufacturing	-6	-15	-9	-17	-11
Priv. Serv providing	87	50	72	-6	82
Wholesale trade	9.4	-7.8	-4.4	-12.1	1.6
Retail trade	13.9	3.2	5.7	-5	-14.8
Transp. & Warehousing	-25.3	2.5	-5.1	3.8	-0.5
Information	0	-7	-6	-3	2
Financial	5	-15	1	-6	7
Business services	-20	-17	-13	-24	-23
Temporary help	-15.9	-10.1	-15	-10	-15.2
Education, health	59	43	80	51	70
Leisure, hospitality	47	32	9	-5	27
Government	22	-22	16	14	-50
Federal Government	-3	-14	-8	-9	-26

Source: Haver Analytics

- The September jobs report was overall a decent report that showed the job market isn't on the precipice, and should be enough for the Fed to pause in December. Payroll job gains came in at 119K, well expectations of 51K, but there were negative revisions over the prior two months (-33K), which showed slightly negative job growth in August, so the big gain in September was essentially a bounce back from a weak prior month. Nonetheless, the three-month job gain tally, 62K as of September, is materially stronger than the 29K three-month average as of August report and is a better temperature gauge for where job gains stand. Wage growth edged down a tick below the consensus view to 0.2%, while average hours worked stayed unchanged at 34.2. The household survey showed the jobless rate rose to 4.4%, one notch above expectations, but the participation rate also moved up one tick to 62.4% and so did the employment-to-population ratio to 59.7%. A December pause by the Fed will have a lot to do with a lack of data and it makes sense to kick the can down the road to the new year as they get more information about the recent performance of the economy, as well better insight into the legal challenges to the administration's tariffs.

- Underneath the hood of today's report, about two-thirds of the job gains came from health and government, and amongst the remaining cyclically sensitive sectors, leisure and hospitality led the way with a robust 47K increase in the month. The manufacturing sector continued to shed jobs and is now trending at -10K on average over the last three months, or a cumulative drop of nearly 60K jobs since global tariffs were applied. Transportation and warehousing was weak in the month as well, losing 25K jobs in the month.
- Despite a solid headline number, there was wide sectoral dispersion in job growth reflecting the different forces at play in the economy. Trade tensions are weighing on trade sensitive parts of the economy, likely as firms are carefully managing tariff pass-through, but mitigating the impact on margins by either pausing on hiring, or selectively firing. The flip-side is the consumer so far remains unbothered by the modest price gains from tariffs and is mostly employed outside of trade-intensive sectors, and is also being buoyed by healthy wealth gains. All of that is helping to keep demand high for leisure and hospitality, and potentially elective healthcare procedures.
- The rise in the jobless rate in the household survey will be of some concern to members of the FOMC. The increase in the participation rate isn't enough to explain the rise, and unemployment did broaden by demographic groups. Around 35% of the rise in today's unemployment rate came from prime-age workers and 55% from the 55+ category. That is a continuation of a shift in the composition of unemployment. The jobless rate has risen now 0.7%-points since January 2024. In June of this year, over 90% of the increase came from youth, but now, that has fallen to about 50% of the overall rise since the start of last year. Historically, rising youth unemployment presages higher prime-age unemployment during downturns. That dynamic has yet to forcefully appear so far, as the overall level of unemployment remains modest, but there are signs of a slow move in that direction which will worry several labor-focused FOMC members.
- The data fog will be the main reason for the Fed's pause, with the deluge of data to come in December and January as statistical agencies get back on track. But the Fed minutes showed that there seems to be a desire to get to neutral, with the data dictating the speed of that return as opposed to significant worries about price stability. We expect the debate on where neutral exactly is to heat up in the coming months and it would not be unreasonable for further pauses to test out how the market, the economy and sentiment holds up at different interest rates to assess where neutral actually is.

Implications & actions

Re: Economic forecast — We continue to expect the Fed to pause in December before resuming with two more rate cuts in 2026.

Re: Markets — Yields and the dollar dropped on the upside surprise. Market odds are less than 50% as of writing for the Fed to move in December.

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