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US Non-farm payrolls: Getting a little hot under the collar

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Employment change (thousands, unless otherwise noted)	Sep 23	Aug 23	Jul 23	Jun 23	May 23
Unemployment rate (%)	3.8	3.8	3.5	3.6	3.7
Avg. hrly earn all (Monthly % Chg)	0.2%	0.2%	0.4%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.2%	0.5%	0.1%	0.7%	0.0%
Nonfarm employment	336	227	236	105	281
Total private	263	177	145	86	255
Goods-producing	29	47	12	32	24
Construction	11	36	12	29	25
Manufacturing	17	11	-2	4	-4
Priv. Serv providing	234	130	133	54	231
Wholesale trade	12	0	15	-7	8
Retail trade	20	0	13	-23	21
Transp. & Warehousing	9	-19	-7	-19	19
Information	-5	-21	-19	-10	-4
Financial	3	2	15	2	13
Business services	21	11	-29	-1	45
Temporary help	-4	-13	-17	-36	-7
Education, health	70	97	104	79	88
Leisure, hospitality	96	44	38	26	28
Government	73	50	91	19	26
Federal Government	6	11	10	6	9

Source: Haver Analytics

- Like a ship staying its course despite strong headwinds, the September US jobs report is telling us the underlying resilience of the US economy is greater than many anticipated. Job gains surged to 336K, up from 227K the month prior. There were +455K in net positive revisions, making the consensus expectations of 170K job gains incomparable. But there were also some more mixed elements in the report as well. The unemployment rate was unchanged at 3.8%, one notch above consensus expectations. Nominal wage growth remained subdued at 0.2% m/m, below expectations of a 0.3% gain. The participation rate stayed firm at 62.8%, indicating that last month's sharp increase in labour supply is unlikely to be transitory. Nonetheless, the surge in job gains will mean it should be a getting a little hot under the collar for the Fed and today's data increases the chances of a November hike in our view. If CPI comes in soft again -- given continued supply-side improvements -- the FOMC is likely to stay on the sidelines. But if inflation comes in above a pace consistent with 2% annualized inflation, we believe the Fed will hike in November.

- Job gains were led by the private services sector, which accounted for almost 70% of hiring in the month and almost all of the increase relative to the previous month. Government hiring also picked up and was about 20% of job gains. In the service sector, the increase was led by leisure and hospitality, health care and social assistance, business services and the retail sector. Health care has been the main driver of employment growth in the quarter, likely because past job gains have renewed workers access to employer-linked health care plans, increasing demand for healthcare services. Today's release showed the pace of increase in health care slowed somewhat, which will be something to watch going forward. Overall, the upward revisions to previous months, showing larger and more broad-based job gains, help explain why we saw a surge in consumer spending in the quarter.
- The payroll survey showed wage growth remain soft, the second consecutive reading of 0.2% and average weekly hours worked was flat in the month. Weak wage growth was concentrated in the service sector, where six sectors witnessed weaker wage growth momentum, including those were job gains were largest such as leisure and hospitality and the health care sector. Average weekly hours worked has stayed around its pre-pandemic level since April 2023.
- The household survey however, painted a much cooler picture of the labour market. Hiring increased by just 86K, a significant slowdown from the above 250K average pace in the previous three months. Tepid hiring and further increases in the labour force kept the unemployment rate and participation rate unchanged. Last month the labour force increased by 736K, mostly on foreign-born new entrants, and there was a further modest increase this month. The prime-age participation stayed steady 83.5% but reflected offsetting changes in male and female participation. Male prime-age participation is now 89.6%, matching its pre-pandemic high in March 2019. As much as job gains are a signal of demand, the increase in participation is a partly offsetting disinflationary force to the extent that this increase is more permanent. The Fed will certainly be keen to disentangle those forces as it seeks to navigate the various signals from today's data.

Implications & actions

Re: Economic forecast — The September labour market data, both the increase in the month and the large revisions to prior months, suggests greater economic resilience and puts at risk our call of the Fed holding in November. We believe that if inflation stays consistent with a 2% annualized pace in next week's CPI reading, the Fed will continue to hold. However, if inflation comes above that, we expect they will hike in November.

Re: Markets — Bond yields and the broad dollar both rose and sustained gains given the surge in job gains.