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US Non-farm payrolls: I'm sorry Ms. Bowman … I am for real …

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Employment change (thousands, unless otherwise noted)	Sep 24	Aug 24	Jul 24	Jun 24	May 24
Unemployment rate (%)	4.1	4.2	4.3	4.1	4.0
Avg. hrly earn all (Monthly % Chg)	0.4%	0.5%	0.2%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.1%	0.8%	-0.1%	0.3%	0.4%
Nonfarm employment	254	159	144	118	216
Total private	223	114	99	97	206
Goods-producing	21	5	21	2	12
Construction	25	31	14	18	13
Manufacturing	-7	-27	6	-16	3
Priv. Serv providing	202	109	78	95	194
Wholesale trade	1.9	0.4	5	6	-2
Retail trade	15.6	-8.8	-4	-20	8
Transp. & Warehousing	-8.6	3.2	-2	11	26
Information	4	-7	-16	0	-1
Financial	5	10	-4	13	12
Business services	17	-4	-4	-11	55
Temporary help	-13.8	-6.5	-19	-30	14
Education, health	81	60	67	82	69
Leisure, hospitality	78	53	38	4	18
Government	31	45	45	21	10
Federal Government	2	1	0	2	1

Source: Haver Analytics

- Remember that weak summer job market? Well, there were no traces of it in the September jobs report. Employment rose by a very strong pace of 254K in September, smashing the consensus view of a 150K increase, and there were material upward revisions, with +72K net revisions over the prior two months. Three month-average payroll gains now stand at 186K as of September, well above estimates of long-run break-even rates. Consistent with that, in the household survey the unemployment rate ticked down by one notch to 4.1%, below expectations of 4.2%, and the participation rate stood firm at 62.7%. Wage growth also accelerated to 0.4% m/m, one tick above consensus. This was an unambiguously strong report and makes a 25bps rate cut the most likely path for November. There is, of course, another jobs report to see prior to then and revisions could swing the other way again, but the across the board strength in September job report combined with the large upward revisions to income and the saving rate we saw last week, have changed the calculus for more front-loading of rate cuts at the next meeting.

- We expect the Fed will cut by a quarter basis point at both the November and December meeting now. Prior to today, we expected the Fed to continue front-loading with another 50bps cut in November and then subsequently ease by 25bps increments. But that extra easing will just be shifted to 2025 and we still expect the Fed to return to neutral territory by around the middle of next year. Our updated forecast will shed light on the pace of easing in 2025.
- The strength in payroll job gains in September was broad-based. Hiring in acyclical sectors -- government and healthcare -- was at 103K, which was about its three-month average as of August. Cyclical sectors saw job gains pickup sharply in the month to 151K led by leisure and hospitality (78K), the goods producing sector (21K) and retail trade (16K). However, the increases in leisure and hospitality and retail trade seemed particularly outsized and vulnerable to revision or seasonal adjustment patterns. With the revisions to the prior two-months, the three-month average job gains in August stood at 140K (or 100K for private payrolls) and that seems about right in terms of where the labor market truly is rather than 186K in September given the large gains. The volatile pattern of revisions, which admittedly have mostly been negative this year, mean one should put less faith on the release month.
- Average hours worked dipped to 34.2, but that is still roughly where it should be. The wage growth numbers, while not sizzling, are still simmering with wage growth rising to 4.0% year-over-year and comfortably rising in real terms. Productivity growth is excellent, but further sustained increases in productivity would be needed to balance out wage growth if it continues to moderate slowly from here on out. We expect wage growth, like elsewhere in the advanced economy world, is adjusting downward slowly as contracts are negotiated and catch-up inflation continues to play some role, particularly for unionized and public sector workers.
- The household survey was consistent with the payroll data for a change. Employment increased by 430K in the month or 222K on a three-month basis. The unemployment rate has now ticked down two months in a row and is back in line with other labor market indicators suggesting the labor market is about balanced. Labor supply also continues to look healthy although there are reports that undocumented immigration could be tailing off sharply, which could mean labor supply gains could be harder to come by in the not-so-distant future.
- Ms. Bowman is going to get to put her feet up on the table and speak first at the next FOMC meeting. But Powell was still right to do 50bps in September because the risk of the labor market slipping away, based on the data we had then, made sense. Keeping real rates around 3% just did not add up with inflation where it is. Also, markets should take a deep breath and remember that one solid month does not mean the past year of labor market cooling goes away either. The economy does not move in straight line down and the FOMC knows that. But certainly more caution is warranted now given the volatile pattern of revisions we are seeing both on GDP and labor. Having a good real-time read of the economy is becoming difficult, and that more than any other reason, could be good grounds to move more slowly at least for the next few months.

Implications & actions

Re: Economic forecast — We now expect the Fed to cut by 25bps at each of the next two meetings, but still expect the same amount of cumulative easing by the middle of next year with Fed getting to 3.375%, our best guess of neutral. So we are shifting the timing of rate cuts out. We plan to prepare a new forecast for Monday which will shed light on the timing and pace of easing in 2025.

Re: Markets — Both 2Y yields and the broad-dollar rose on the positive surprise in today's report. The market is now pricing in about 57bps of easing by the end of this year as of writing.

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