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US Non-farm payrolls: A lot of noise but also some bad signals

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Employment change (thousands, unless otherwise noted)	Oct 24	Sep 24	Aug 24	Jul 24	Jun 24
Unemployment rate (%)	4.1	4.1	4.2	4.3	4.1
Avg. hrly earn all (Monthly % Chg)	0.4%	0.3%	0.4%	0.2%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.4%	0.3%	0.7%	-0.1%	0.3%
Nonfarm employment	12	223	78	144	118
Total private	-28	192	37	99	97
Goods-producing	-37	23	2	21	2
Construction	8	27	28	14	18
Manufacturing	-46	-6	-26	6	-16
Priv. Serv providing	9	169	35	78	95
Wholesale trade	10.4	6.1	6.9	5	6
Retail trade	-6.4	15.4	-14.5	-4	-20
Transp. & Warehousing	-3.7	2.7	10.7	-2	11
Information	3	3	-8	-16	0
Financial	0	4	7	-4	13
Business services	-47	-9	-47	-4	-11
Temporary help	-48.5	-20.2	-23.3	-19	-30
Education, health	57	95	67	67	82
Leisure, hospitality	-4	40	9	38	4
Government	40	31	41	45	21
Federal Government	1	4	1	0	2

Source: Haver Analytics

- A lot of noise in the October jobs report as expected, with hurricanes and a major strike pushing hiring in October close to flat. Employment dropped to just 12K in October, far below the consensus of a 100K gain and miles below last month's 223K mark. There were 44K workers reported on strike in the month and also major downward revisions to the prior two months, with 112K net negative revisions. The three month-average jobs added trend as of October was 104K and 148K as of September. Wage growth picked up to 0.4% m/m, one tick above consensus but that could reflect distortions to the composition of hiring in the month. In the household survey the unemployment rate stayed unchanged at 4.1%, in line with expectations but the participation rate ticked down one notch to 62.6%. The October data point is one the Fed will look through, waiting for the dust to settle from these temporary impacts in a few months. They will likely be more focused on the trend up until September and big revisions to those prior months, which continues to show the job market has clearly cooled. We continue to expect the Fed will cut by a quarter basis point at both the November and December meeting, which is where Market is essentially is as of writing.

- The composition of payrolls was downright ugly in October. Excluding government and healthcare, there were 79K net jobs lost. The biggest chunk of that was due to manufacturing from strike related activity, but temporary help services, retail, transportation and warehousing also saw material dips in the month. Beyond the temporary disruptions, some part of the weakness in October likely also reflects a pullback from last month's surprise surge in hiring. Taking a few steps back, a clear downward trend in cyclical employment is emerging. The three-month average job gain for cyclical sectors is now at 5K in October and 43K in September. That compares to 123K in March. Government and healthcare remain solid anchors for job creation, adding 91K in the month, which is slightly below the 100K pace they have been adding over the prior month.
- Most certainly employment will bounce back next month with the hurricanes having a much larger impact than most expect, but the downward revisions that mostly impacted August, suggest they will return to a slightly lower level than we thought. There is also a risk that October could look worse come next month, as small businesses who aren't properly surveyed in the first round of the payroll report, report back in the second and third estimates. Those revisions vindicate our view that trouble for the labor market is brewing and the real-time gauge of the economy is getting more difficult to read (See our recent piece, "No love of labor: Why the US labor market needs some preventative medicine")
- Average hours worked were unchanged at 34.3 and on the surface the wage growth numbers were hotter than expected, rising to 4.0% year-over-year. Composition effects may well be biasing the wage numbers up but the Fed will place more weight on the ECI report from earlier this week. While lagged, the compositionally adjusted ECI measure suggest wage growth continued to cool this past quarter, particularly in the private sector, with "catch-up" to higher prices likely driving higher public sector and unionized wage growth. That too should settle gradually and productivity-adjusted wage growth is still in a very healthy place meaning one shouldn't be worried about wages pushing up inflation at this point.
- The household survey also wasn't spectacular. Employment dipped by 368K in the month, and employment gains on a three-month average basis were 77K. The unemployment rate was flat after ticking down the prior two months, but that was partly because the part-rate dipped by one notch. That was due to a three notch decline in prime-age participation. That very likely will perk up again once these disruptions fade over the next few months but the strength in labor supply is likely behind us now, with a crackdown on illegal crossing at the southern border and slower wage growth failing to entice re-entrants.
- Separating the noise and the signal in today's report is difficult but the what we can glean from today's report about the underlying trend of the job market undoes a lot of the optimism we felt in September. September feels a bit like an anomaly right now, and the volatile pattern of revisions keeps questions about data quality and what sort of real-time signal we are getting about the economy at the forefront. That uncertainty will keep the Fed primed in steady easing mode.

Implications & actions

Re: Economic forecast — We continue to expect the FOMC to cut by 25bps at each of the next two meetings, and the Fed to get to 3.375%, our best guess of neutral, around the middle of next year.

Re: Markets — Both 2Y yields and the broad-dollar decline on the negative surprise in today's report.

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