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Economic Flash!

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Soft Hiring in September Caps a Still-Solid Q3

Following is a summary of the September employment situation from the US Labor Department

	Sep	Aug	Jul	Jun	May	Apr	3MAvg
Unemployment rate	3.7%	3.9%	3.9%	4.0%	3.8%	3.9%	3.8%
Rate (3 decimals)	3.683%	3.853%	3.871%	4.048%	3.755%	3.929%	n/a
Avg. hrly earn all	0.3%	0.3%	0.3%	0.2%	0.3%	0.2%	0.3%
Avg. wkly hour all	34.5	34.5	34.5	34.6	34.5	34.5	34.5
Nonfarm employment	134	270	165	208	268	175	190
Total private	121	254	137	192	260	174	171
Goods-producing	46	37	41	36	56	52	41
Construction	23	26	19	8	30	16	23
Manufacturing	18	5	22	21	23	28	15
Priv. Serv providing	75	217	96	156	204	122	129
Trade, transport	8	55	17	-14	52	-9	27
Retail trade	-20	12	2	-42	29	-2	-2
Information	0	-3	1	-2	3	3	-1
Financial	13	12	3	12	12	3	9
Business services	54	65	39	47	49	59	53
Temporary help	11	12	10	-7	-1	18	11
Education, health	18	58	36	67	42	38	37
Leisure, hospitality	-17	21	13	28	35	14	6
Government	13	16	28	16	8	1	19
Federal Government	-1	-1	1	2	1	1	0

Source: Bloomberg

- Although September's hiring figure appears disappointing, especially relative to surveys released earlier in the week, the headline hides relatively solid details. Employment growth and aggregate hours worked decelerated from Q2's lofty pace but are still consistent with above-3% growth in Q3. Continued robust expansion suggests that the Fed will remain on track to raise rates again in December.

- The 134K jobs gained in September came in well below expectations for a more trend-like increase of 185K. But when accounting for the 87K positive revision to the prior two months, payrolls exceeded expectations, with 618K jobs gained in Q3, only a slight deceleration from the prior quarter. We had anticipated some weakness in today's figures on account of hurricane Florence distortions. Indeed, retail trade and accommodation and food services both shed roughly 20K jobs, but will likely rebound ahead as hurricane distortions normalize.

- An unchanged participation rate makes the two-tick fall in the unemployment rate to 3.7% even more impressive. The larger gain in employment in the household survey likely owes to the timing difference with the payrolls survey that allowed the former to escape some of the hurricane-related weakness. The unemployment rate now sits at the lowest level since the 1960s.

- The Fed has been looking for signs of an acceleration in wages, and today's data showed another solid monthly advance of 0.3% for the third consecutive month. That figure is likely somewhat overstated, however, due to the exclusion of workers in lower-paying industries on account of Florence. Although the annual rate fell a tick to 2.8% as expected, wages have been on a gradual upward trajectory this year and could see a boost next month when a soft reading falls out of the annual calculation. That would bring the annual trend closer to the 3-4% that materialized during the peak of the previous economic expansion.

- Manufacturing hiring in Q3 slowed more significantly than total non-farm payrolls in Q3 despite the imposition of protectionist measures. While some of the contraction in auto manufacturing payrolls in September could be a result of Florence, other manufacturing sub-industries including primary metals and fabricated metals saw hiring decelerate on the month.

Implications & Actions

Re: Economic Forecast— The US economy is on track for healthy above-3% growth in Q3 following a hot Q2. Solid wage gains should continue to support consumption and help catalyze increased labor market participation going forward. The impacts from hurricane Florence should normalize in Q4 but tightening labor markets will continue to guide growth towards potential over the remainder of the year. With the economy on a still-solid trajectory, the Fed should remain on its gradual rate hiking path.

Re: Market— The USD has retrenched as a result of the softer jobs headline, and yields are marginally higher owing to the favorable wage print.