WELLS FARGO

Economic Indicator — November 1, 2024

October Employment: Searching for the Signal in the Noise

Summary

We expected a noisy October employment report due to Hurricanes Helene and Milton as well as some strike activity, and the event delivered on those expectations. Nonfarm payrolls rose by just 12K in October, the weakest reading for payroll growth since December 2020. It is clear that the hurricanes and strikes reduced employment growth below what it otherwise would have been. That said, when doing our best to look through the noise, there were some signs of softening in the labor market. The industry composition of employment growth in October hinted at some weakness beyond the one-off factors that drove the poor headline reading. Job growth in August and September was revised down by a cumulative 112K, suggesting that last month's stellar employment report was not as strong as previously believed. The unemployment rate should have been less impacted by the hurricanes and strikes, and on an unrounded basis it rose by one-tenth of a percentage point.

On balance, the unusually weak employment report in October should be taken with a healthy dose of skepticism. The special factors at play likely will keep the FOMC from repeating its September 50 bps rate cut at its meeting next week. That said, the continued softening in employment conditions was consistent with the other labor market data released this week. A decline in job openings and slowdown in employment cost growth are additional signals that inflationary pressures are no longer emanating from the labor market. A 25 bps rate cut at next week's FOMC meeting seems highly likely in our view.

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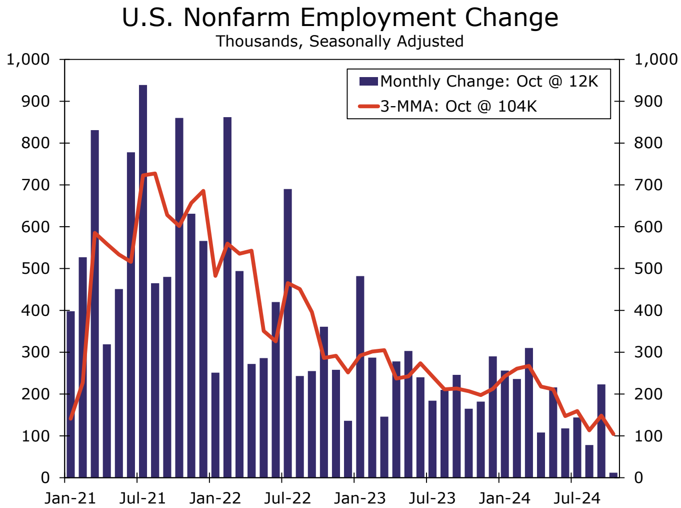


Source: U.S. Department of Labor and Wells Fargo Economics

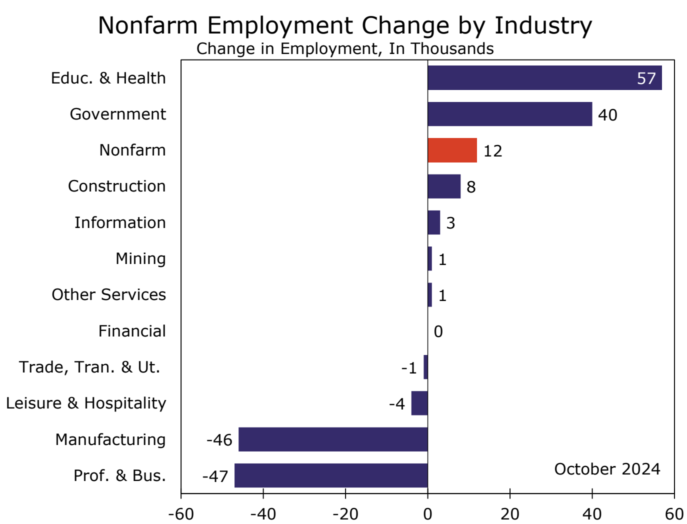
Hurricanes, Strikes Distort October Employment

Expectations were set for hiring to slow sharply in October amid a jump in strike activity and back-to-back hurricanes, but even a low bar was not low enough. Nonfarm payrolls rose just 12K last month, below consensus expectations for a 100K gain. New strikes spanning the survey week, most notably at Boeing, directly reduced payrolls by about 40K in October. Employment at transportation equipment manufacturers fell 44K over the month, with likely some modest knock-on effects from related furloughs. Most of the hit should be reversed, however, when the dispute is resolved, creating only a temporary effect.

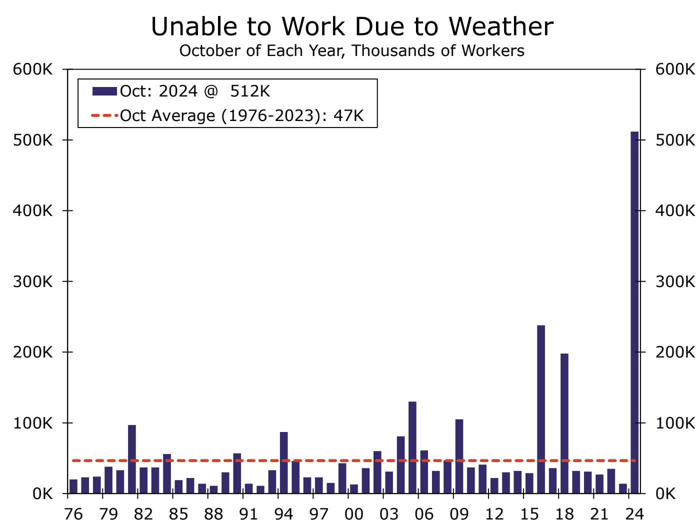
The impact from Hurricanes Helene and Milton, the latter of which made landfall during the survey week, are not as easily discerned. The household survey showed 512K employed persons not at work due to weather—about 10x higher than is typical in October. While not directly tied to the establishment survey count of paid employees, the increase demonstrates disruptions to work were unusually large last month. Workers who missed the entire pay period overlapping with the establishment survey week are excluded from payroll counts, making industries with a high share of workers who are paid weekly more susceptible to the work disruptions caused by hurricane preparation and cleanup. To that end, hiring in construction, where nearly two-thirds of workers are paid weekly, slowed sharply, while employment in the trade & transportation and leisure & hospitality firms declined outright.

But, weakness spread beyond those industries, including a 47K drop in professional & business services and essentially flat headcount in the information (+3K), financial activities (+0K) and other services (+1K) industries. Once again, it was left to healthcare & social assistance (+51K) and government (+40K) to drive hiring.

The BLS noted the response rate was depressed for this survey (47.4%—the lowest for October since 1985), but stated that the lower-than-usual response rates extended to areas not impacted by recent storms due to the length of the collection period falling on the lower-end of the possible range. While that generates the *possibility* for subsequent upward revisions, *actual* revisions released today also pointed to the trend in hiring having weakened since the last jobs report. Payroll gains for August and September were revised down by a combined 112K, pushing the three-month average pace of hiring down to 104K.

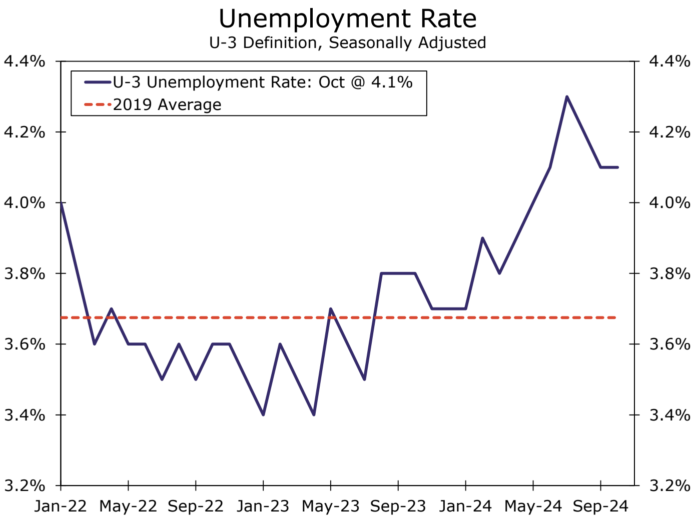


Source: U.S. Department of Labor and Wells Fargo Economics

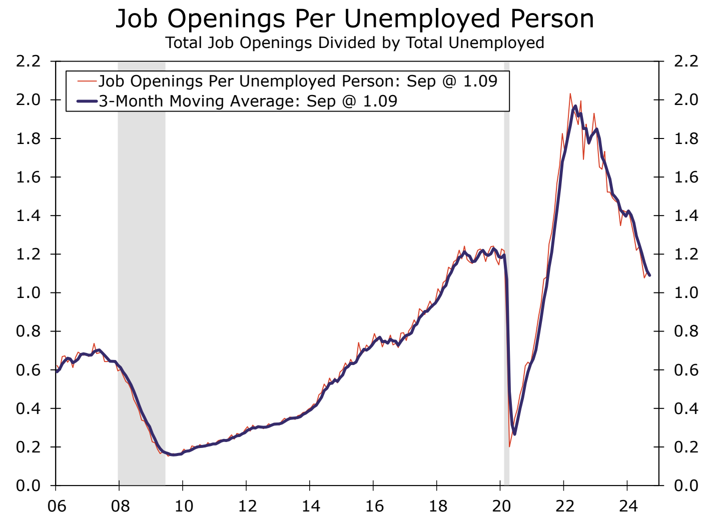


Source: U.S Department of Labor, Bloomberg Finance L.P. and Wells Fargo Economics

Amid these temporary distortions, the unemployment rate can give a cleaner read on the employment situation. Workers with a job but not-at-work due to participating in a strike or weather issues are counted as employed in the household survey, although furloughed workers or those working at a business that no longer exists would be counted as unemployed. Underneath the surface of this month's household survey were some signs of softness in the labor market. The unemployment rate held steady in October at 4.1% on a rounded basis, but the unrounded rate in September was 4.051%, while the unrounded October reading was 4.145%, meaning the unemployment rate essentially rose by one-tenth of a percentage point. The labor force contracted by 220K, pushing the labor force participation rate down a tenth to 62.6%.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Given the noise in the October employment report from the strikes and hurricanes, we suspect the FOMC will take this reading with a large grain of salt. That said, when doing our best to look through the noise in the data, there were some signs of softness in the labor market. The downward revisions to nonfarm payrolls in August and September take some shine off of last month's strong reading, and the nearly one-tenth rise in the unemployment rate is fairly modest but probably not the directional move most FOMC members want to see. The continued softening in employment conditions was consistent with the other labor market data released this week. A decline in job openings and slowdown in employment cost growth are additional signals that inflationary pressures are no longer emanating front the labor market.

A 25 bps rate cut at next week's FOMC meeting seems highly likely. Past that, the Committee will get another employment report again on December 6 that hopefully will provide some clarity on the underlying trend in employment growth. The December 17–18 FOMC meeting also will occur at a time when the Committee can more fully digest the election results and the next two CPI readings. Our base case currently looks for another 25 bps rate cut in December.

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