Economics

Economic Indicator — October 4, 2024

September Employment: Some Sizzle in a Cooling Trend

Summary

The September employment report was strong across the board. Nonfarm payrolls jumped by 254K in the month, the hottest reading since March, and job growth in August and July was revised higher by a cumulative 72K. Coming into today, the three-month moving average on monthly nonfarm payroll growth was 116K. Today's print, when paired with the upward revisions, pushes the three-month moving average up to a much more robust 186K. The separate household survey from which the unemployment rate is derived also showed signs of a labor market that is coming into balance rather than collapsing. Employment as measured by the household survey outpaced growth in the labor force, pushing the unemployment rate down by one-tenth to 4.1%.

Today's employment report is welcome news and suggests that the soft readings over the prior few months were not a sign of an imminent and sharp increase in unemployment. That said, one point does not make a trend, and there is still plenty of evidence to suggest that the labor market is cooling. That this cooling appears to be gradual rather than sudden reinforces our view that the FOMC will opt for a 25 bps reduction in the fed funds rate at its November 7 meeting instead of a second-straight 50 bps rate cut.

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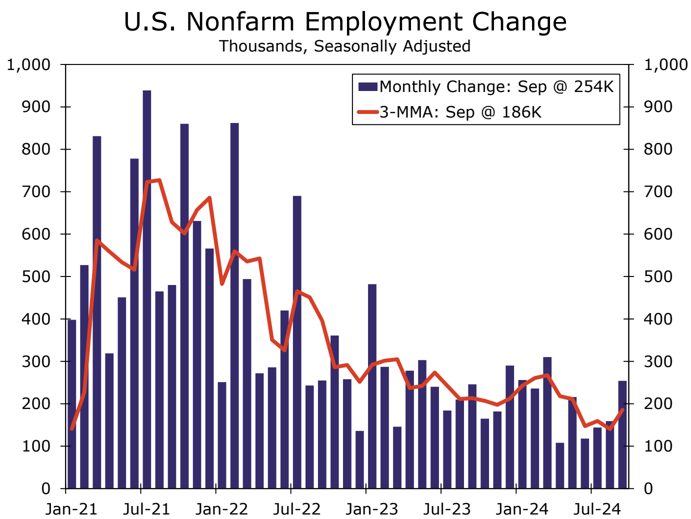
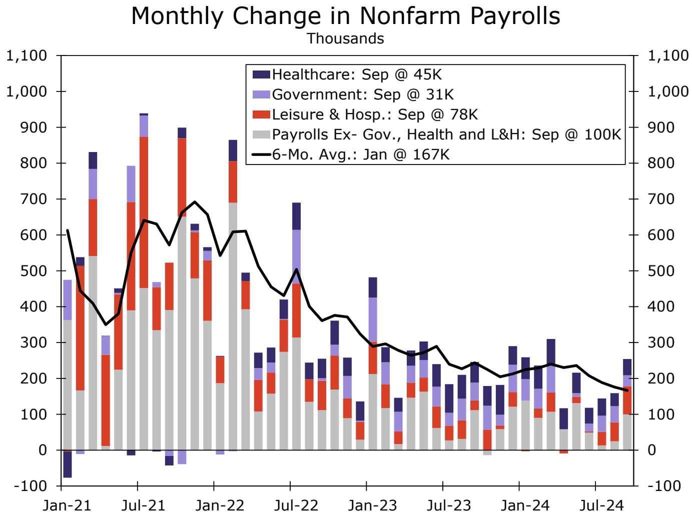


Source: U.S. Department of Labor and Wells Fargo Economics

September Jobs Report Bucks Cooling Trend

Nonfarm payroll growth in September blew past expectations, expanding by 254K compared to a consensus forecast of 150K. Perhaps even more encouragingly, job growth in August and July was revised higher, reversing a string of reports when the revisions to job growth in prior months were negative. Coming into today, the three-month moving average on monthly nonfarm payroll growth was 116K. Today's print, when paired with the upward revisions, pushes the three-month moving average up to a much more robust 186K. The sectors that have led the charge on employment growth in recent months once again posted strong gains. Leisure & hospitality (+78K), healthcare (+45K), government (+31K) and social assistance (+27K) accounted for 71% of the job growth in September despite only accounting for roughly 40% of total employment. Overall hiring was more widespread in September, with the diffusion index of industries adding jobs rising to 57.6. However, the amount of jobs added by various other industries was still somewhat underwhelming. For example, professional & business services were up by 17K, finance up 5K and information up 4K. Manufacturers continued to shed jobs last month (-7K), while hiring at temporary staffing agencies fell for the 28th time in 30 months.



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

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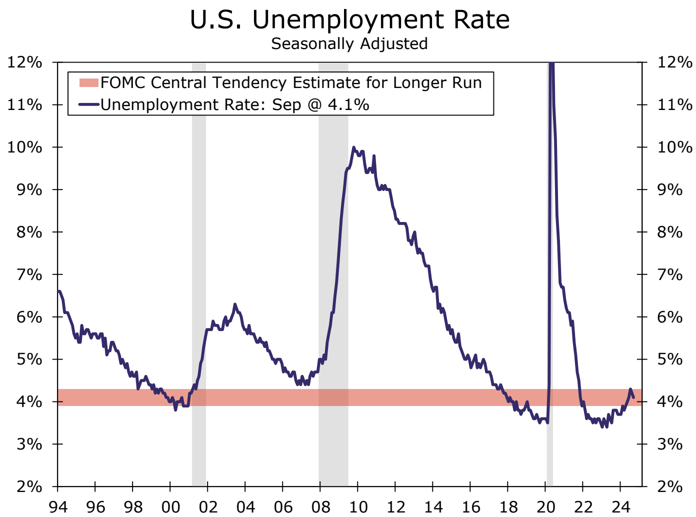
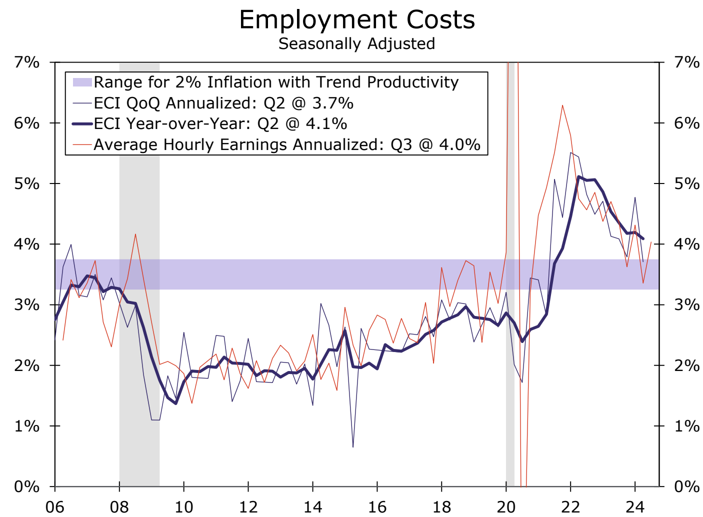
The household survey offered a further hint of the jobs market stabilizing in September. The unemployment rate edged down to 4.1%, its second consecutive monthly drop. Although still up from 3.7% at the start of the year, the jobless rate has been in the 4.1%-4.3% range since June in a sign that the negative effects associated with job loss (e.g., weaker income, spending) are not building on themselves and that employers are still able to absorb entrants to the labor force. To that end, September's dip in the unemployment rate was driven by a sizable increase in the household measure of employment (+430K) and decline in unemployed workers (-281K). The labor force participation rate remained unchanged at 62.7%, although with a 0.1 point dip among prime-age workers (25-54) and a sharp rebound among 16-24 year olds (from 54.8% in August to 55.5% in September). Under-employment dropped back as well, with the U-6 unemployment rate slipping to 7.7% from 7.9% in August.

The somewhat stronger picture of the jobs market extended to earnings growth as well. Average hourly earnings rose more than expected, posting an increase of 0.4%. After an upward revision to August, average hourly earnings are up 4.0% over the past year. Although still noticeably above the pace that prevailed over the past cycle, we do not see the firming in September as a risk to derailing the current downward trend in inflation. The underlying trend in the labor market still seems to be toward gradual cooling, and a pickup in productivity growth further tempers the inflationary pressures emanating from the labor market. The Fed will be looking more closely at its preferred gauge of compensation pressures, the Employment Cost Index, which is due on October 31.



Source: U.S. Department of Labor, Federal Reserve Board and Wells Fargo Economics



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

The September jobs report offers an encouraging sign that labor market conditions are stabilizing, but we are not quite ready to declare victory over the shaky labor market data that pushed the FOMC to cut the fed funds rate by 50 bps two weeks ago. Demand for new workers has turned to merely lukewarm, as indicated by the downward trend in job openings, contractionary PMI employment readings, drop in small business hiring plans and faltering consumer perceptions of job availability. Fortunately, layoffs remain low, but an upturn could lead to a further downshift in net payroll growth with firms reluctant to take on new workers.

For now, the gradual, rather than sudden, cooling in the jobs market appears supportive of the FOMC easing by 25 bps instead of a second-straight 50 bps rate cut at its next meeting on November 7. However, prior to the Committee's next gathering, there will be one more employment report released on November 1, in addition to a key read on labor costs (the Q3 Employment Cost Index on Oct. 31) and another month's worth of inflation data (see our September CPI preview here) that could alter our expectations for the FOMC's next move.

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