ECONOMIC UPDATE

REGIONS

October 5, 2012

September Employment Report: Better, But By No Means Good Enough

- Nonfarm employment rose by 114,000 jobs in September; revisions to July and August data yielded a net upward revision of 86,000 jobs.
- Average hourly earnings rose by 0.3 percent in September, with aggregate earnings up by 0.68 percent (up 3.84 percent year-over-year).
- The unemployment rate fell to 7.8 percent (7.791 percent unrounded); the broader U6 measure held steady at 14.7 percent.

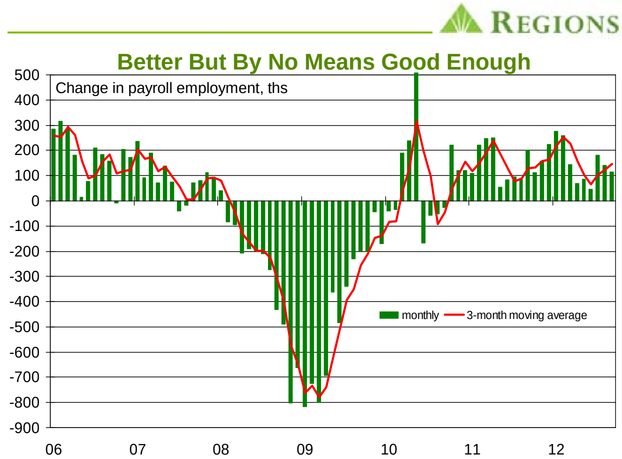
Nonfarm payrolls rose by 114,000 jobs in September, but what was yet another middling headline print on total payroll employment has been overshadowed by a surprisingly large decline in the unemployment rate, which fell to 7.8 percent. Despite the labor force having risen by 418,000, the unemployment rate nonetheless fell on the "strength" of an outsized gain in household employment, reported to have risen by 873,000 in September. Additionally, revisions to previous estimates of job counts for July and August show a net upward revision of 86,000 jobs for the two-month period. It should be noted that these revisions fall entirely on the government sector, with a net upward revision of 91,000 to government payrolls compared to a net downward revision of 5,000 to private sector payrolls over the two-month period. We were a bit surprised last month when initial government sector job counts did not reflect the hiring typically associated with the start of the school year, but the revisions have accounted for that.

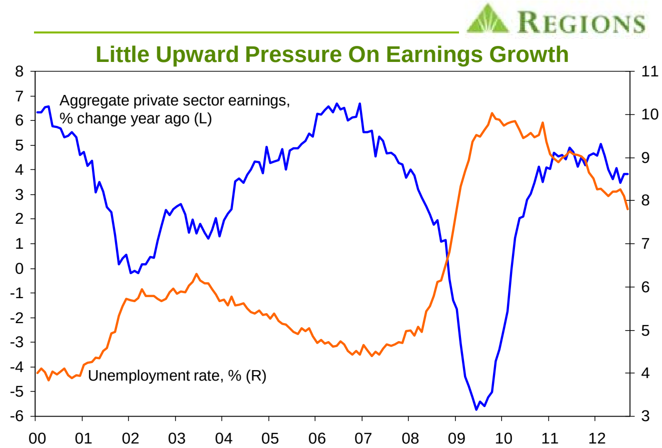
Last month we presented a detailed discussion (*A Second Look At The Household Survey*) on what was a high degree of seasonal noise in the household survey. Each year, the start of the school year results in sizeable numbers of young adults, those aged 16 to 24, leaving the labor force. This year, however, that departure took place earlier than normal, which is a function of the timing of the school year. The seasonal adjustment factors are geared for this departure taking place in September and, as such, were caught off guard when larger numbers of young adults left the labor force in August.

The result was a large decline in the seasonally adjusted labor force, more than accounted for by this age group. The September data are in large measure a payback for this – the seasonal adjustment factors adjusted for a large departure that did not occur, which is the main reason the household data show large gains in the seasonally adjusted labor force and household employment counts. But, on a not seasonally adjusted basis, employment amongst those aged 16 to 19 fell by "only" 585,000 this September – in data going back to 1948, this is the smallest September decline in employment amongst this age cohort on record. In August, employment in this age cohort declined by 826,000, a mark topped only by the decline seen in 2001 when the economy was in the midst of a recession.

Aside from this, the household data also show that the number of those working part-time for economic reasons jumped by 582,000 in September, now standing at 8.613 million. There was a sizeable decline in the number of those unemployed for 27 weeks or more, which fell to 4.844 million in September. While in recent months declines in this metric seem to have been more tied to people departing from the labor force rather than finding jobs, the data on labor force flows show a jump in those moving from unemployed to employed in September, while the number of unemployed who departed the labor force declined. This is an encouraging change of course, but one that will need to be sustained before it signals material improvement in labor market conditions.

The details of the payroll survey do not suggest material improvement in labor market conditions, particularly the decline (16,000) in manufacturing payrolls and the one-month employment diffusion index (a measure of the breadth of hiring across private sector industries) stuck just over the 50 percent mark. Given the mix of jobs added, it is a bit curious that the length of the workweek rose by one-tenth of an hour while average hourly earnings rose by 0.3 percent. These two factors combined to lift aggregate earnings by 0.68 percent in September, which nonetheless leaves us with an over-the-year gain of just 3.84 percent. As seen in the second chart below, what remains a considerable degree of labor market slack means that there is little upward pressure on overall earnings growth, which is likely to remain the case for some time to come. All in all, the drop in the unemployment rate notwithstanding, the labor market remains far from healthy.





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