ECONOMIC UPDATE

REGIONS

November 5, 2012

October Employment Report: Labor Market Making Steady, But Slow, Progress

- Nonfarm employment rose by 171,000 jobs in October; revisions to August and September data yielded a net upward revision of 84,000 jobs.
- Average hourly earnings were flat in October, with aggregate earnings up by 0.12 percent (up 3.41 percent year-over-year).
- The unemployment rate rose to 7.9 percent (7.876 percent unrounded); the broader U6 measure fell to 14.6 percent.

The most anticipated employment report since the last one turned out to be bipartisan in nature – with plenty to cheer and complain about no matter what one's political leanings. Nonfarm payrolls rose by 171,000 jobs in October, with revisions to previously released estimates for August and September resulting in a net upward revision of 84,000 jobs for the two-month period. Private sector payrolls rose by 184,000 jobs in October, with total government payrolls falling by 13,000 jobs. Data from the household survey show sizeable gains in both the labor force and household employment, with the net result being an increase in the unemployment rate to 7.9 percent.

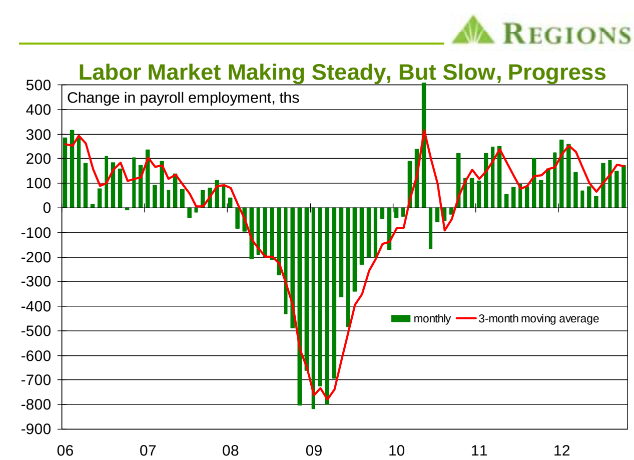
No one, however, will be able to put a positive spin on the details on earnings in the October data. Average hourly earnings were flat which, along with an average workweek of just 34.4 hours, blunted the impact of the gain in private sector payrolls on overall earnings. Private sector earnings rose by just 0.12 percent in October, for an over-the-year gain of just 3.41 percent. Not only is this the smallest such gain since August 2010 but, as seen in the second chart below, the pace of earnings growth has steadily slowed even as the unemployment rate has been whittled down. This is a reflection of the considerable degree of slack that remains in the labor market. To put it in terms Chairman Bernanke might use, the rate of resource utilization remains so low, even though it is improving, that there is simply little, if any, upward pressure on wages. This trend is reflected in data from other venues, such as the decline in unit labor costs seen in the Q3 productivity data. This meager pace of earnings growth is acting as a considerable drag on overall personal income growth, which in turn will impact consumer spending.

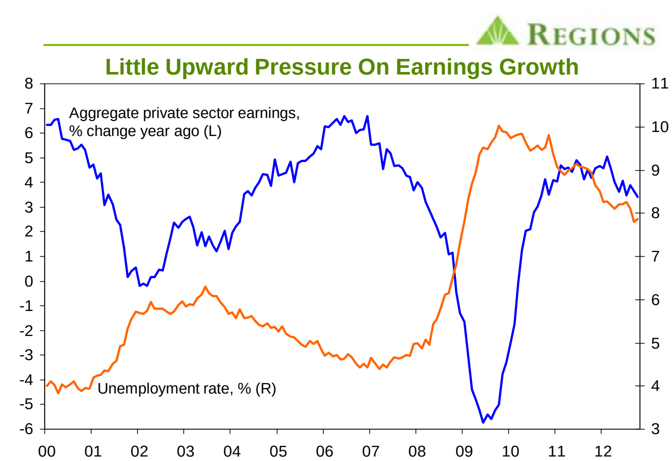
Patterns in private sector earnings to a large extent reflect the mix of jobs being created. As we discussed in detail in our October *Economic Outlook*, job growth during the current recovery has been heavily concentrated in industries with below average workweeks and below average hourly earnings. This was the case in October, with retail trade, health care, leisure & hospitality services, and temporary help services accounting for a sizeable share of overall private sector job gains.

October's increase in the unemployment rate was expected given the high degree of noise in the household data over the prior two months. The October data across age groups and genders look far more "normal" and it is encouraging that the labor force has risen by almost one million people over the past two months. October marks the second consecutive month with a decline in the number of unemployed people leaving the labor force and while that metric remains above where it would be in a healthier labor market it is nonetheless down considerably from the recessionary peaks. While the number of those working part-time for economic reasons fell in October, there are still 8.344 million such workers – one factor keeping the broader U6 measure of underemployment elevated. Moreover, the number of those unemployed for 27 weeks or longer stands at 5 million, still unacceptably high. These latter two data points go straight to our point when we refer to the high degree of slack that remains in the labor market.

Because the question has been raised to us, we will point out that while the October employment data were not impacted by Hurricane Sandy, the November data may be, particularly data from the payroll survey. In that survey, one must be physically at work to be counted as employed, which is not the case with the household survey. So there will be little, if any, impact on the unemployment rate, but there could be a more significant impact on the November payroll data.

The October employment report is, on the whole, consistent with what we have seen over the past several months. Steady progress but at a pace that continues to feel unsatisfactory and a long way to go before the labor market has fully regained its footing. Both job and earnings growth will remain sluggish through early 2013 but should pick up over the latter half of 2013 and into 2014.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com