

Economics Group

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Hiring Remains on the Slow Track

Even though the unemployment rate fell to 7.2 percent, nonfarm payrolls posted a smaller than expected gain of 148,000 jobs in September. The softer jobs report likely puts the kibosh on any Fed tapering this year.

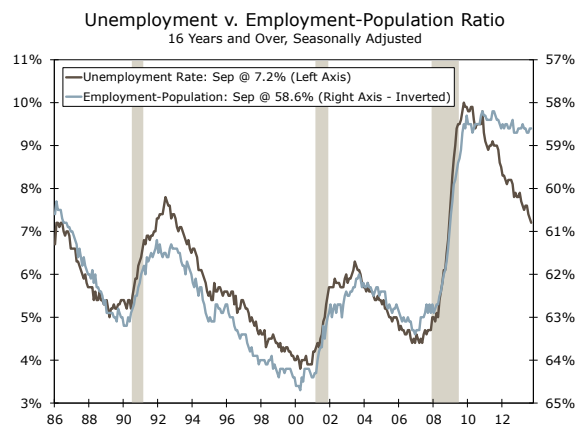
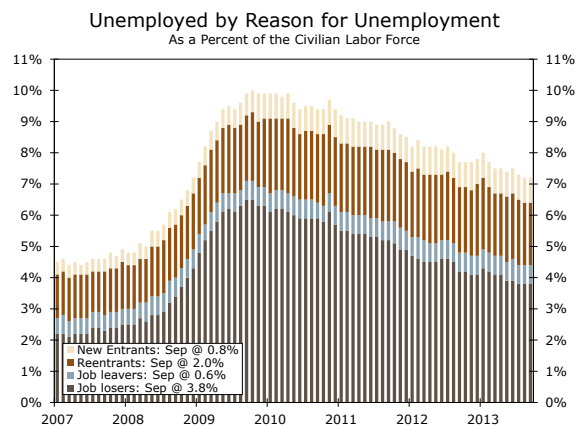
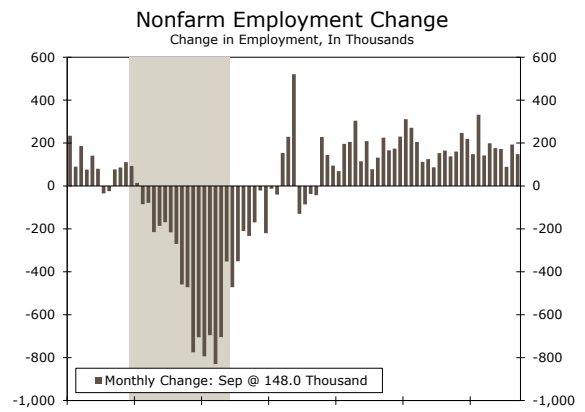
Businesses Continue to Hold Back on Hiring

Nonfarm employment rose by 148,000 in September and has increased by 143,000 per month over the past three months. The pace of hiring has moderated considerably from the first half of the year, when payrolls added nearly 195,000 new jobs a month. There was a surge in hiring earlier this year in the leisure and hospitality sector, as many firms strived to meet a key deadline set out by the Affordable Care Act. Employment in the leisure and hospitality sector added 45,000 jobs per month during the first half of the year, which was about one and a half times higher than the average monthly gain seen during the prior year. Employment in the leisure and hospitality sector has since declined in two of the past three months.

Another factor restraining third quarter job growth was the sudden rise in long-term interest rates that followed the Fed's revelation that it might begin to wind down securities purchases this fall. Hiring in many interest rate-sensitive parts of the economy clearly moderated. Employment in financial services, which had risen for 12 straight months, suddenly pulled back in August and September, reflecting a slowing in mortgage applications. Hiring in construction also pulled back in July and August before rebounding solidly this past month. We suspect that part of the earlier weakness in construction payrolls was due to unseasonably wet weather in much of the South this past spring and summer. With the weather drying out, payrolls bounced back in September. Gains were evident in both residential and nonresidential sectors.

Manufacturers added 2,000 jobs and payrolls in wholesale trade added a hefty 16,100 new jobs. Hiring also picked up in the transportation and warehousing sector, which added 23,400 new jobs. Most of that gain came from transit and ground passenger transportation, which may be a seasonal quirk tied to hiring of bus drivers at the start of the school year. Hiring for public schools also explains the improvement in state and local government payrolls, which added 28,000 jobs in September, but lost 1,500 jobs after excluding education. The federal government cut 6,000 jobs in September.

Slower payroll growth has not kept the unemployment rate from falling. The unemployment rate declined 0.1 percentage point to 7.2 percent in September and has fallen 0.4 percentage points since June. All of the decline in the unemployment rate over the past year has come from fewer layoffs, not more hiring. Unemployment rates for new entrants, reentrants and those voluntarily leaving their last jobs are unchanged over the past year. Moreover, the employment-population ratio has tumbled over the past five years, as many job seekers have simply left the workforce. Comparing the unemployment rate to the employment-population ratio provides a sense of how much higher the jobless rate would be if so many people had not given up looking for work.



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