ECONOMIC UPDATE
REGIONS
October 3, 2014

September Employment Report: Solid Headline; Details A Mixed Bag

- Nonfarm employment rose by 248,000 jobs in September; prior estimates for July/August were revised up by a net 69,000 jobs.
- Average hourly earnings were flat, with aggregate private sector earnings up 0.5 percent (up 4.55 percent year-over-year).
- The unemployment rate fell to 5.9 percent (5.942 percent unrounded); the broader U6 measure fell to 11.8 percent.

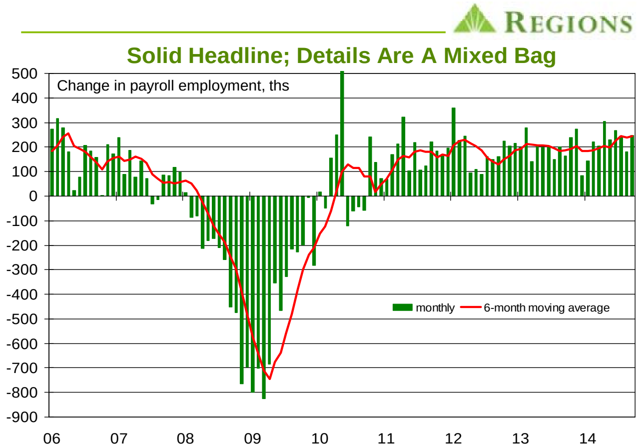
Zero. In a September employment report 38 pages long and full of numbers, zero is the one number the FOMC will be the most focused on. Sure, total nonfarm employment rose by 248,000 jobs in September and the unemployment rate fell to 5.9 percent. But, despite the addition of roughly 1.9 million jobs over the past 8 months and an unexpectedly rapid decline in the unemployment rate, we have yet to see signs of meaningful growth in average hourly earnings, hence the reference to "zero" – as in zero growth in hourly earnings in September. And this gets us to our summary of this month's 38 pages of numbers – they come with a solid headline and details that are a mixed bag.

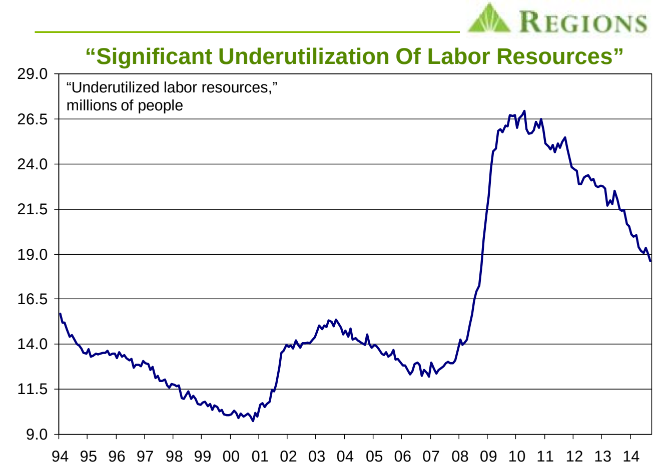
Added to September's gain in nonfarm payrolls, prior estimates for July and August were revised higher by a net 69,000 jobs, with 67,000 coming in the private sector. Note the upward revision that added 38,000 jobs to the prior estimate for August takes us only halfway to the average 77,000 upward revision between the first and third estimates for August seen over the prior five years, so we suspect there will be further upward revision to the August number next month. Be that as it may, average monthly job gains over the past six months now stand at 245,000 jobs, so the underlying trend rate of job growth has clearly improved. Moreover, as we have noted over the past few months, job growth has been broader based across private sector industry groups than at any point since the late 1990s. True, the one-month hiring diffusion index dipped to 57.8 percent in September, but the trend of late has been for this figure to be revised higher and over the past six months 62.8 percent of private sector industry groups have been adding to payrolls each month, which points to a healthy breadth of job gains.

Payrolls in retail trade rose by 35,300 jobs while most of the decline reported for August has been revised away. Recall August's decline included the effects of a strike at a regional grocery chain which contributed to the reported decline in retail payrolls, and September's number includes the return to work of those on strike. Leisure and hospitality services added 33,000 jobs in September, a larger gain than expected given the steadily shrinking gaming industry. Manufacturing payrolls rose a disappointingly small 4,000 jobs in September. While payrolls in nondurable producing goods industries continued to contract, as has been the case for some time, the offsetting gains in the durable goods producing industries were softer in September, hence the smallish net gain in factory payrolls.

From the household survey, the labor force fell by 97,000 persons in September with the declines concentrated in the prime working age cohorts – the 25-to-34, 35-to-44, and 45-to-54 year-old age groups all posted declines in participation. As we frequently note, the monthly labor force data are highly volatile, and the main point here is we have yet to see evidence of a meaningful reversal in the cyclical component of the decline in the labor force participation rate over recent years while the underlying structural decline remains in place. This is one reason the FOMC will not place as much emphasis on a sub-6.0 percent unemployment rate, particularly with 18.59 million people falling into the group that represents, in the words of the FOMC, "significant underutilization of labor resources." This total includes the 7.103 million people working part-time for economic reasons, and both numbers are far, far above the levels that would prevail in a normal, healthy labor market.

This takes us back to earnings and labor market slack. Aggregate private sector earnings rose 0.5 percent in September and were revised higher for August. On an over-the-year basis, aggregate earnings are growing at a 4.5 percent pace. Still, this growth is coming from gains in payrolls and, at least in September, hours worked. What is still absent is accelerating growth in hourly earnings, which is the missing link to a more normal pace of growth in aggregate private sector earnings of closer to 6 percent. This takes us back to where we started this discussion. Sure, they will be pleased to see a sturdier pace of job growth but until there is evidence of meaningful and sustained growth in hourly earnings, the FOMC will by no means be satisfied.





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