ECONOMIC UPDATE

REGIONS

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September Employment Report: Underlying Rate Of Job Growth Remains Steady

- Nonfarm employment rose by 156,000 jobs in September; prior estimates for July/August were revised down by a net 7,000 jobs.
- Average hourly earnings rose by 0.2 percent, with aggregate private sector earnings up 0.66 percent (up 4.25 percent year-on-year).
- The unemployment rate rose to 5.0 percent (4.965 percent unrounded); the broader U6 measure held at 9.7 percent.

Total nonfarm employment rose by 156,000 jobs in September, with private sector payrolls up by 167,000 jobs and government payrolls down by 11,000 jobs. While prior estimates for job growth in July and August were revised down by a net 7,000 jobs for the two-month period, this reflects sharp downward revisions in the government sector as private sector job gains were revised up by a net 14,000 jobs. The unemployment rate ticked up to 5.0 percent – the unrounded rate rose from 4.922 percent in August to 4.965 percent in September – as the participation rate increased. Average hourly earnings were up 0.2 percent, for a year-on-year gain of 2.6 percent. One glaring weakness in the September report is the manufacturing sector, with payrolls falling by 13,000 jobs in September after a 16,000 job decline in August. Here are some brief thoughts on some of the main points from the September report.

Revisions: Historically the initial estimate for job growth in August has been prone to large upward revision, which was not the case this year. One main reason is this August saw a much higher response rate to the BLS's establishment survey than is typically the case, meaning there was less room for revision. For what it's worth, September's response rate of 81.7 percent is the highest on record for the month. One area which we have pointed to as a source of seasonal adjustment noise is government hiring tied to education. As we anticipated there was payback in the data for September and a downward revision to the initial August estimate.

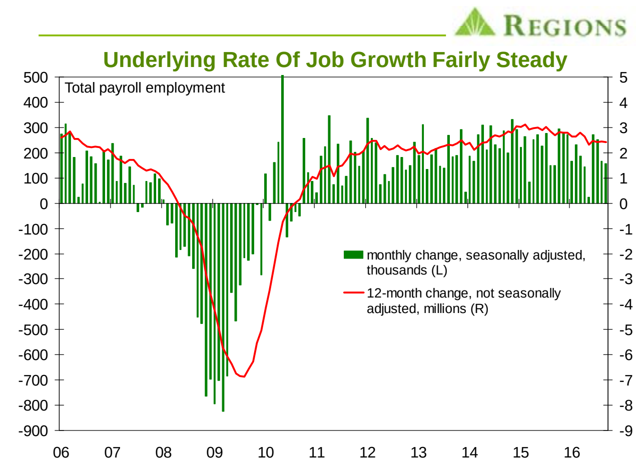
Labor Force: September's 444,000 person increase in the labor force was more than accounted for by those between the ages of 35 and 64, while there was a decline amongst those between 16 and 24 years old. This decline, however, reflects a later than normal return to school amongst younger adults – we noted August saw a much smaller decline than typical and there would be payback in September.

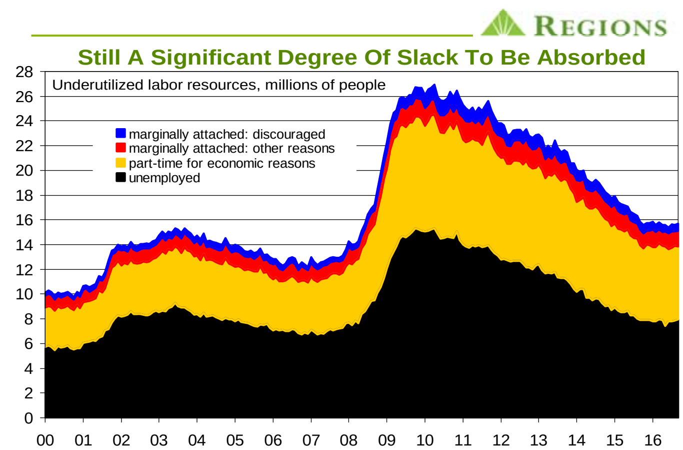
Labor market slack: Contrary to claims by some that we are "running out of workers" participation amongst those in the prime working years has edged higher over recent months. Additionally, though falling modestly in September the number of those working part-time for economic reasons remains far above historical norms, and this is a prime factor that, at 15.7 million people, the number of underutilized labor resources also remains far above normal levels. This is consistent with what all along has been our view that there is more slack in the labor market than implied by the headline unemployment rate.

Hours worked: August's one-tenth of an hour decline in average weekly hours was reversed in September – we still think the decline in August was more seasonal adjustment noise than anything else. While they may seem trivial, these one-tenth of an hour changes in the length of the workweek are equivalent to over 300,000 private sector jobs. These changes also have a profound impact on growth in aggregate private sector wage and salary earnings, which were up 0.7 percent in September and for Q3 as a whole rose at an annualized rate of 3.97 percent.

Breadth of Hiring: The one-month hiring diffusion index came in at 57.8 percent in September, which is decent but down from recent months. More troubling is the diffusion index for the manufacturing sector fell to 39.2 percent, which is basically a recession-level reading. Durable goods producing industries more than accounted for September's decline in total manufacturing payrolls, which to some extent reflects weak capital spending at home and weak growth abroad. We noted the headline on this month's ISM Manufacturing Index was better than the underlying details, and the September employment data are consistent with that view.

FOMC: There are already some analysts stating the September employment report clears the path for the FOMC to raise the Fed funds rate at their December meeting. We'll humbly note the Committee will see two more monthly employment reports prior to their December meeting. So, the way we think about it is today's report was one of three hurdles that had to be cleared – and it was – in order for there to be a funds rate hike in December. And, oh by the way, in addition to these hurdles there are any number of obstacles that can yet be strewn across the FOMC's path over the next two months. Just sayin'.





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