ECONOMIC UPDATE

REGIONS

November 4, 2016

October Employment Report: No Labor Market Surprise In October

- Nonfarm employment rose by 161,000 jobs in October; prior estimates for August/September were revised up by a net 44,000 jobs.
- Average hourly earnings rose by 0.4 percent, with aggregate private sector earnings up 0.50 percent (up 4.35 percent year-on-year).
- The unemployment rate fell to 4.9 percent (4.876 percent unrounded); the broader U6 measure fell to 9.5 percent.

Total nonfarm employment rose by 161,000 jobs in October while prior estimates for job growth in August and September were revised up by a net 44,000 jobs for the two-month period. October's job gain was slightly below the consensus estimate of 173,000 jobs and pretty much in line with our forecast of 164,000 jobs. The unemployment rate fell to 4.9 percent as both household employment and the labor force declined. Perhaps the most eye catching number in today's report is the 0.4 percent increase in average hourly earnings, which yields a year-on-year increase of 2.8 percent, the largest such increase since May 2009. The broader U6 measure which includes underemployment as well as unemployment fell to 9.5 percent, the lowest reading since April 2008.

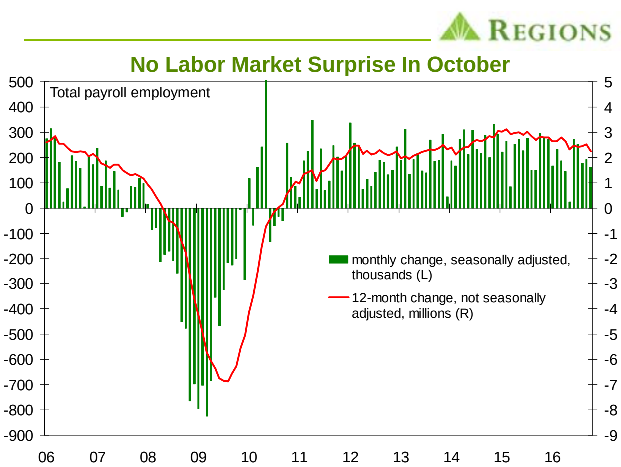
While at first glance it may seem there is little not to like in today's report, we don't have to look too hard to see the report as a mixed bag that tells us little new about the labor market. For instance, the upward revision to prior estimates for August and September are almost entirely accounted for by a large upward revision to government payrolls in August. The goods producing sector of the economy remains notably weak, with job counts in manufacturing falling by 9,000 jobs and the hiring diffusion index for manufacturing remains below 50 percent, indicating ongoing and broad based weakness – over the past 12 months the factory sector has shed 53,000 jobs. While the U6 measure did fall, this is the result of a decline in those marginally attached to the labor force, as the number of those working part-time for economic reasons did not budge and stands at 5.889 million. The broad measure of underutilized labor resources, or, the combined number of those unemployed, marginally attached to the labor force, or working part-time for economic reasons, fell in October but at 15.4 million remains well above the roughly 13.5 million we'd associate with the labor market being at full employment.

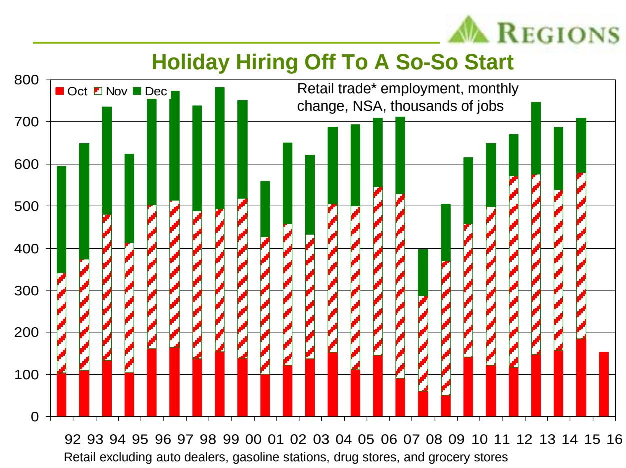
To be sure, there are those who look at the increase in hourly earnings and the deceleration in the trend rate of job growth (as shown by the solid line in the chart below) and conclude the economy is already at full employment. We'll simply say "not so fast." Anyone who has been following the data knows the average hourly earnings data are prone to calendar effects that in some months lead to wage growth being overstated and in other months understated. And, no, the decline in the labor force doesn't tell us firms are running out of workers to hire, but it should remind us how volatile the household survey data are on a month-to-month basis. October's decline is almost entirely accounted for by lower participation amongst those 24 years-old or younger, but net labor force flows over the past several quarters remain significantly positive.

For the private sector as a whole, the one-month hiring diffusion index, which measures the breadth of hiring across industry groups, rose to 59.2 percent, below levels seen earlier in the expansion but still consistent with broad based hiring. One drag over the past several months has been manufacturing, as noted earlier. The combination of weak global growth and soft capital spending in the domestic economy continue to weigh on manufacturing, and to the extent the U.S. dollar continues to firm over coming months, U.S. manufacturing will do no better than to tread water.

October typically marks the start of retailers hiring for the holiday season, but we'd caution against reading too much into the reported increase of just 1,000 jobs in retail trade. That is a seasonally adjusted number, but the proper way to compare this year to past years is to look at the change between September and October on a not seasonally adjusted basis. On this basis, retail payrolls rose by 0.98 percent in October, which is right in line with historical averages though below last year when retail hiring was stronger in any October in over two decades. But, given higher wages in retail specifically and the growing preponderance of online sales, we look for holiday hiring this year to fall short of past years.

Clearly, different analysts will have different takes on the October jobs report. We see it as a mixed bag. But, either way, probably the most significant point, on which most if not all analysts would agree, is this report will do nothing to deter the FOMC from raising the Fed funds rate at their December meeting.





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