ECONOMIC UPDATE
REGIONS
November 3, 2017

October Employment Report: October's Gains Leave Us Where We Were

- Nonfarm employment rose by 261,000 jobs in October; prior estimates for August/September were revised up by a net 90,000 jobs.
- Average hourly earnings fell slightly; aggregate private sector earnings rose by 0.2 percent in October (up 4.1 percent year-on-year).
- The unemployment rate fell to 4.1 percent in October (4.066 percent, unrounded); the broader U6 measure fell to 7.9 percent.

Total nonfarm employment rose by 261,000 jobs in October, with private sector payrolls up by 252,000 jobs and government payrolls up by 9,000 jobs. While job growth came in shy of our forecast of 314,000, which was in line with the consensus forecast, the initial estimate of a 33,000 job decline in payrolls in September was revised to show a gain of 18,000 jobs, which leaves the level of employment in October pretty much where we had anticipated it would be. Between the upward revisions and October's gain, average monthly job growth over the past 12 months is 170,000 jobs, right at what had been the run rate prior to the hurricanes.

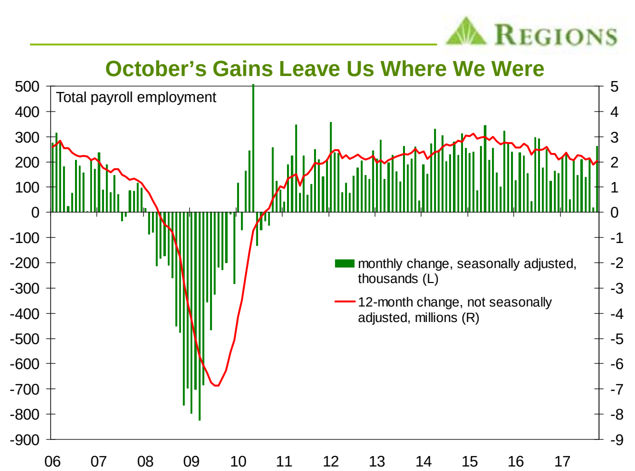
The unemployment rate fell to 4.1 percent in October, the lowest since December 2000. This is, however, an example of the jobless rate falling for the wrong reason, as the labor force declined by 765,000 persons, more than offsetting the 484,000 person decline in employment as reported in the household survey. As we routinely note, the household survey data are inherently jumpy from one month to the next – recall the September data showing a 575,000 person increase in the labor force and a 906,000 person increase in household employment. As such, we don't see any meaningful takeaways from the swings reported in the October data. What is noteworthy, however, is that the number of those employed part-time for economic reasons fell to 4.753 million in October, the fewest people in this category since December 2007. This helped push the broad U6 measure, which accounts for both underemployment and unemployment, down to 7.9 percent, a rate last seen in December 2006.

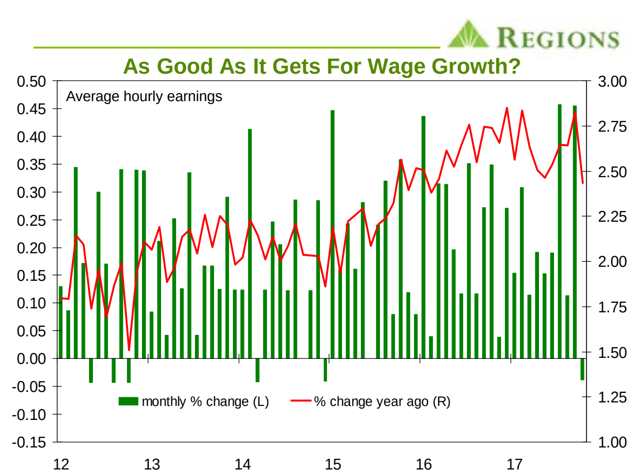
Average hourly earnings are reported to have fallen by one cent in October, which leaves them up 2.4 percent year-on-year. This is a drastic swing from the September data, which showed hourly earnings up 0.5 percent for the month and up 2.9 percent year-on-year. We attach as much significance to the October data as we did to the September data, which is to say almost none whatsoever. The September increase reflected nothing more than the sharp swings in the industry mix of employment in the wake of the hurricanes – payrolls in leisure & hospitality services, in which hourly earnings are but 59 percent of the overall average, fell by better than 100,000 jobs, and these jobs falling out of the mix biased reported growth in the overall average higher. October saw a reversal of this effect, with leisure & hospitality payrolls rising by 106,000 jobs. Moreover, as we noted in our weekly *Economic Preview*, the October survey period fell early in the month, which consistently biases reported average hourly earnings lower.

Neither the September nor the October data should have come as a surprise to anyone and neither reflects underling labor market conditions. As seen in our chart below, there is a considerable degree of volatility from month-to-month in measured average hourly earnings growth, and though some can't seem to resist reacting to any given month's number as though it tells them everything they need to know about the labor market, the trend rate of growth is what matters. That trend rate is clearly higher over the past 18 months than it had been for the prior four years. While growth in hourly earnings will likely edge higher in the months ahead it will likely fall short of growth seen in prior cycles. One key reason is that inflation remains easily below rates seen in prior cycles; when comparing growth in real wages, the current cycle is very much in line with past cycles, though this point goes largely overlooked.

Aside from the bounce in leisure & hospitality services, October's job gains were driven by business services, manufacturing, and education & health services. The seasonally adjusted data show retail trade payrolls fell by 8,300 jobs – this reflects a smaller than normal increase in not seasonally adjusted payrolls, suggesting holiday hiring in retail got off to a very slow start this year, which is not at all surprising given how the ongoing shift towards online shopping is disrupting the retail landscape.

The October data reverse most, though not all, of the distortions in the September data stemming from the hurricanes, and the November data should be "clean" in that regard. What we can see from the October data is there has been little disruption to the underlying trend rate of job growth and remaining labor market slack is being steadily pared down.





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