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Economics Group

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Jobs: Divergent Gains Emerge, Lower Gains Overall

The September jobs report disappointed as gains came in less than expected and August jobs were revised down. While certainly no FOMC move in October, December is now in question. Awaiting more data—again.

Divergent Job Gains Emerge—Role of Energy, Global Shocks

Analyzing the broad sweep of the jobs report, "some" improvement in the labor market is our conclusion, but the pace of gains has certainly slowed relative to expectations. Nonfarm employment rose just 142,000 in September and August was revised down, which is unusual based on recent historical patterns. These observations, plus the data reviewed below, bring into question whether this meets the Fed's requirement for some additional improvement in the labor market. We, and the Fed, are on the bubble—an uncomfortable place that generates continued volatility in economic and financial markets.

Job gains during September were more mixed than in previous months. The diffusion index for industries reporting job gains fell to 52.9 percent—the weakest since the labor market recovery began in February 2010 (top chart). Job losses in the mining and manufacturing industries reflect the effects of continued weakness in commodity prices and sagging global demand. Services fared somewhat better in September relative to August, but job growth here has also slowed noticeably from the pace registered earlier in the year.

Hours Worked and Wages Show a More Tepid Labor Market

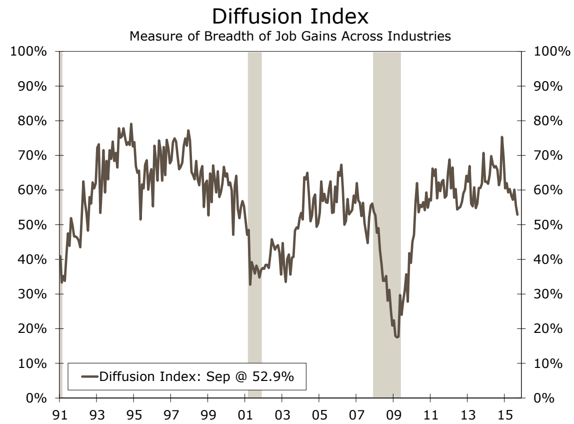
Adding to the disappointing gain in payrolls was a pullback in hours worked. The average workweek dipped by 0.1 hour during the month to 34.5 hours, leading to a drop in aggregate hours worked (middle chart). Changes in hours are a good leading indicator for job growth and therefore suggests that the downshift in job gains will be sustained going forward.

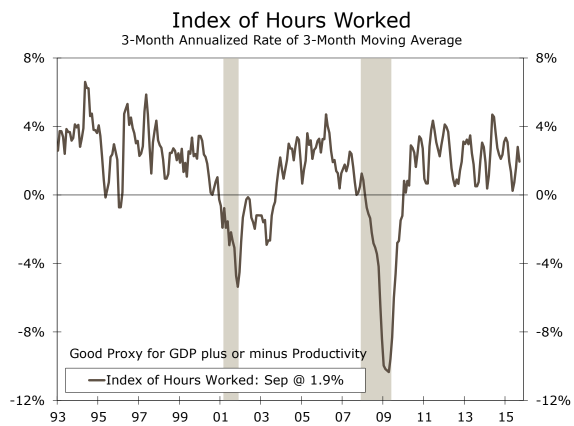
These results are consistent with our medium-term view that job gains are set to moderate, although still remain strong enough to bring the unemployment rate down on trend as labor force growth remains weak. The recent slowdown also reinforces our view of a split-level economy—domestic strength, export weakness.

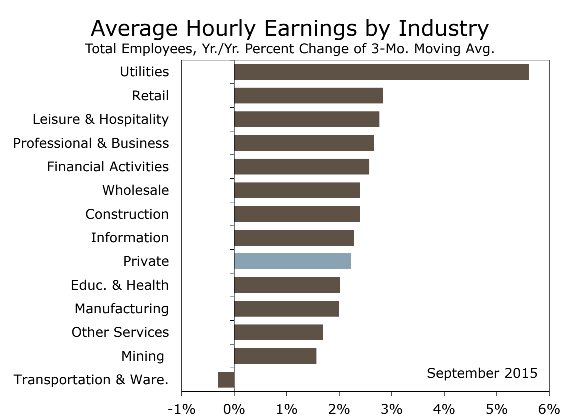
Average hourly earnings were unchanged in September. Although August earnings growth was revised up a tick to 0.4 percent, the year-over-year pace of wage gains was unchanged at 2.2 percent. Yet, while total private sector wages continue to plod along at just over a 2 percent pace, there is wide variation among industries. Industries more oriented toward the domestic economy have seen noticeably stronger wage growth than the mining and manufacturing industries over the past year (bottom chart).

Labor Force Participation Falls to New Cycle Low

As expected, the unemployment rate was unchanged at 5.1 percent. However, weakness was evident elsewhere in the household survey, with the labor force participation falling to a new cycle low of 62.4 percent and the employment-population ratio falling back to 59.2 percent.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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