Scott Anderson, Ph.D.
Chief Economist
415.765.8020

Instant Analysis of Today's Employment Report for September

Job Creation Jumps in September; +248K vs. Consensus Exp. +215K
Job Growth Numbers Now More In-Line with Other U.S. Indicators
July and August Job Numbers Revised Up a Net +69K
Unemployment Rate falls to 5.9% as Labor Force Participation Rate Drops to 62.7%
Job Growth Accelerates For Nearly All Major Sectors
Business Services (+81K), Ed & Health (+32K), Leisure & Hospitality (+33K)
Retail Trade (+35K), Manufacturing (+4K), and Construction (+16K)
Household Survey Improves- HH Employment (+232K)
Hourly Earnings Flat +0.0% in September; Avg. Hours Worked Increases to 34.6
Market Reaction to Payroll Report; Stocks Slightly Higher 10-Yr Treasury Yield rises to 2.46%

You can almost hear the sigh of relief in the market's today as a strong jobs report eased concerns about a sputtering global economy and some disappointing U.S. indicators over the last few days. Job creation came roaring back in September- up +248K. The two-tenths drop in the unemployment rate to 5.9% should increase the probability of an earlier liftoff date for Fed funds interest rates next year. We hold our forecast for the first rate hike from the Fed as the second quarter of 2015, somewhat ahead of the consensus and market view right now. With that said, I doubt one report will be enough to change many minds on the FOMC. The doves will still be cautious given the mixed signals in the global economy and the absence of wage inflation. Average hourly earnings were unchanged in September, pushing the annual growth rate down to 2.0%. This is not the income growth that we or Janet Yellen is likely looking for to signal to her that the labor market is ready to digest higher interest rates. So we are not there yet, but we continue to inch closer to the Fed goal of full-employment.

We were forecasting a strong recovery in jobs, +230K, we got even more (+248K) with a net upward revision to the past two months of another +69K jobs. Private job growth beat out the ADP report, adding (+236K) jobs in September.

By sector, we saw job growth accelerate for nearly all major sectors except for construction and education and health care. Business services led the way adding a net (+81K) jobs, retail trade (+35K), leisure and hospitality (+33K), education and health (+32K), construction (+16K), and information (+12K). Manufacturing employment was revised down to a (-4K) job loss in August and added only a modest (+4K) in September, somewhat below expectations. State and local government added (+14K) jobs, while the Federal government shed a net (-2K). One note of caution as you read this good news. Seasonal adjustment factors were blamed last month for the weak job numbers for August and those same seasonals could be making the September jobs numbers appear somewhat stronger than they actually are.

The U.S. unemployment rate fell more than our expectations to 5.9 percent in September from 6.1 percent in August. The labor force dropped by another -97K and the labor force participation rate slipped to 62.7 percent from 62.8 percent the month before. Not much sign here of discouraged workers re-entering the labor force. On a brighter note, the average duration of unemployment fell again to 31.5 weeks from 31.7 weeks in August.

The earnings data was probably the most disappointing portion of the report, coming in below consensus expectations and suggesting better income growth remains elusive for workers. Average hourly earnings were unchanged 0.0 percent in September and the year-on-year gains slipped to 2.0 percent. While avg. weekly hours did improve 34.6 hours from 34.5 hours in August, we are still awaiting stronger earnings gains as slack in the labor market dissipates.

Bottom-line, a solid employment report this month that also partially erases the weakness that was visible in August. The report fits in well with our 3.0 percent growth outlook for the U.S. economy. The hawks may have a bit more ammunition to run with at the next FOMC meeting to make a case to act sooner on interest rates. But declining inflation, weak hourly earnings growth, and global growth uncertainties will likely keep the doves on the FOMC in wait-and-see mode. Markets reacted modestly to this employment report, stocks opened slightly higher, the 10-year Treasury yield increased three basis points to 2.46 percent, and the U.S. dollar strengthened against most major currencies.