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Instant Analysis of Today's Employment Report for September

Job Growth Stumbles in September; +142K vs. Consensus Exp. +201K
Unemployment Rate Steady at 5.1%
July and August Job Numbers Revised Down a Net -59K
Avg. Hourly Earnings Flat +0.0% (+2.2% y-o-y) Labor Force Participation Falls to 62.4%
Job Losses in Manufacturing and Mining- Service Sector Job Growth Downshifts
Business Services (+31K), Ed & Health (+29K), Leisure & Hospitality (+35K), Gov't (+24K)
Trade (+23K), Manufacturing (-9K), Mining (-12K) Information (+12K) and Construction (+8K)
December Rate Hike in Doubt with Slowing Job Growth- Need to See Re-Acceleration
Market Reaction to Report; USD strengthens; S&P 500 -1.4%; 10-Yr Treasury -11 bps 1.93%

Job creation continued to stumble in September. The U.S. economy added only +142K jobs on the month, compared to consensus expectations for a gain of +201K. This continued a string of disappointing readings on jobs as August's miss was revised down further to only a gain of +136K with a net downward revision of 59K for the past two months. The 3-month moving average of monthly job gains has slipped to +167K from +243K back in July. The extent and consistency of this softening in monthly job gains, which coincides with the recent period of financial market turmoil and concerns about global growth, will give the FOMC pause about raising interest rates in the face of a slowing economic environment. They will need to see signs of reacceleration of job creation in October and November to truly keep a December rate hike on the table in my opinion. Yes, the FOMC could lose some shorter credibility if they don't raise rates this year, but it would be a small price to pay compared to making a policy misstep and having to swiftly reverse course. Fed funds futures are only putting a 32% probably of a December rate hike in the wake of this morning's jobs report.

It was a pretty weak employment report all around, though not a recessionary signal. The headline unemployment rate held at 5.1% in September, but that was because the labor force contracted (-350K) more than household employment (-236k). Earning growth also stagnated last month. Average hourly earnings growth was flat on the month +0.0%, keeping the year-on-year gain in average hourly earnings at 2.2%. If this slowing in earnings growth continues, it could lead to downward revisions in future consumer spending growth.

By sector, we still saw job growth in most major sectors of the economy. However, job losses continued in mining and manufacturing and services job creation appears to be downshifting from the levels seen in the second quarter. Leisure and hospitality added the most jobs last month (+35K), business services (+31K) Education and health care (+29K), government (+24K), trade (+23K), information (+12K), construction (+8K),and finance (+0K). Manufacturing shed a net (-9K), though that was an improvement from August. Job losses accelerated in mining (-12K) and wholesale trade (-4K). The deceleration in services job growth and spreading job losses in the goods producing sector could be troubling for some on the FOMC, who are worried about the sustainability of labor market momentum in the face growing downside risks. Slower growth usually surfaces in cyclical industries like manufacturing, mining, and wholesale trade before they are seen in more stable service businesses.

Bottom-line, we are forecasting a sharp deceleration in U.S. GDP growth in the third quarter to around 2.0%, from the second quarters outsized gains (+3.9%). This is making the dip in job creation appear more ominous than it probably is. The truth is probably somewhere in between. The strong dollar, headwinds from abroad, and financial market turmoil are have a negative impact on the U.S. economic outlook that will likely keep economic growth at moderate rates in the quarters ahead, but the evidence collected so far do not point to anything more than that. The timing of this slowdown does complicate the Fed's timing on when to begin lifting the Fed funds target rate. A risk adverse and data dependent FOMC will want to see more signs of a re-acceleration in job growth before December.