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September Employment Report: Another Noisy Report Leaves Trend Firmly Intact

- Nonfarm employment rose by 29,000 jobs in September; prior estimates for July and August were revised down by a net 60,000 jobs
- Average hourly earnings rose by 0.1 percent, while aggregate private sector earnings rose by 0.2 percent (up 4.2 percent year-on-year)
- The unemployment rate rose to 4.2 percent in September (4.176 percent, unrounded); the broader U6 measure fell to 7.6 percent

While many are focusing on the headline metrics – nonfarm job growth, average hourly earnings, the unemployment rate – and assessing what they are saying about the labor market or the broader economy or what they might mean for the FOMC, we'll offer two numbers – 53.1 percent and 60,167 – that we think speak volumes. First, the initial collection rate for the September establishment survey was a ridiculously low 53.1 percent, which right off the bat renders the initial September estimates of nonfarm employment, hours, and earnings highly suspect. Second, and more importantly, at least if you set aside the low September collection rate, over the twelve months ending in September, the not seasonally adjusted data show private sector payrolls increased by an average of 60,167 jobs per month, or, right in line with the trend rate that has prevailed since early 2025. This is, to us, the most relevant data point we can pull from the September employment report; while the estimates of monthly job growth on a seasonally adjusted basis have been all over the map, the underlying trend rate of job growth in the not seasonally adjusted data has been notably stable. Moreover, though well lower than what we were all accustomed to over the years prior to the pandemic, the current trend rate of job growth is more than adequate to hold the unemployment rate in check given what is, month to month swings notwithstanding, much weaker labor supply growth. This has been, and remains, our focus, regardless of how many others opt to spin new narratives each month based on the headline labor market metrics.

As for those headline metrics, total nonfarm payrolls rose by 29,000 jobs in September, short of our forecast of 46,000 jobs and even further below the consensus forecast of 95,000 jobs. Private sector payrolls rose by 46,000 jobs, below our forecast of 68,000 jobs, while the decline in public sector payrolls, down by 17,000 jobs, was about as we expected. At the same time, prior estimates of job growth in July and August were revised down by a net 60,000 jobs for the two-month period, with private sector payrolls more than fully accounting for the hit, with revised data showing 81,000 fewer private sector jobs added than previously reported. Average weekly hours held at 34.4 hours, while average hourly earnings were up by 0.1 percent, yielding a year-on-year increase of 3.0 percent. Of more

relevance, aggregate private sector wage and salary earnings were up by 0.2 percent in September, yielding a year-on-year increase of 4.2 percent. The unemployment rate ticked up to 4.2 percent on an increase in labor force participation, while the broader U6 rate, which also accounts for underemployment, fell to 7.6 percent from 7.7 percent in August.

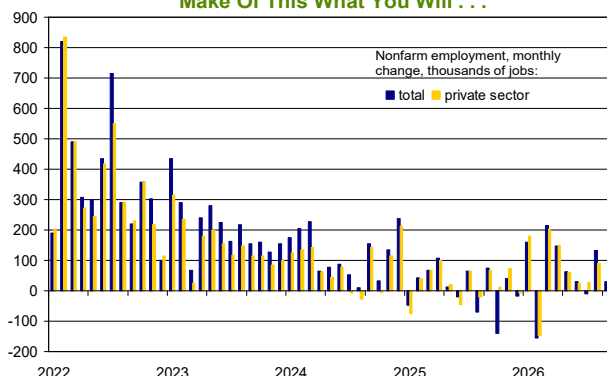
Here is what surprised us about the September employment report. First, though we have for some time pointed to low establishment survey response rates, at 53.1 percent this year marks the lowest September response rate since 1987. Second, the increase in labor force participation. We noted that the increase reported in the August data was little more than noise in the data, but the September increase is largely a function of increased participation amongst the "prime working age" cohort, which is a positive development. Even still, the unemployment rate isn't that far from rounding down to 4.1 percent, and the reality is that it continues to bounce within a notably narrow range which can yield prints of either 4.1 or 4.2 percent that aren't materially different.

Here is what didn't surprise us. First, the downward revision to the initial estimate of August job growth, which we tipped in our preview of the September data. Second, the meager increase in average hourly earnings. In our preview of the data, we noted calendar effects (the September establishment survey ending prior to mid-month) would likely bias the estimate of average hourly earnings lower. Third, construction and manufacturing continue to add jobs, in part reflecting activity stemming from AI investment and data center construction.

Here is what remains to be seen, particularly in light of the low September establishment survey response rate. First, did the breadth of job growth across private sector industry groups narrow to the extent implied by the one-month hiring diffusion index dropping below fifty percent (we think not). Second, is the longer average workweek genuine – we flagged the August increase as being tied to large increases in a few industry groups, and the September data look a bit sketchy to us. This has implications for growth in labor earnings and for productivity growth, so it matters. Third, is labor force participation trending firmly higher – we think not. In short, we think the "low hire-low fire" labor market remains alive and well.



Make Of This What You Will . . .



The Story Hiding In Plain Sight Beneath The Noise

