ECONOMIC UPDATE

REGIONS

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October Employment Report: For A (Nice) Change, Details Support The Headlines

- Nonfarm employment rose by 165,000 jobs in October; prior estimates for August and September were revised up by a net 84,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.5 percent (up 4.4 percent year-on-year)
- The unemployment rate fell to 4.1 percent in October (4.141 percent, unrounded); the broader U6 measure rose to 7.9 percent

Total nonfarm employment rose by 165,000 jobs in October, well ahead of expectations, with private sector payrolls up by 159,000 jobs and public sector payrolls up by 6,000 jobs. At the same time, prior estimates of job growth in August and September were revised up by a net 84,000 jobs for the two-month period, with private sector job growth accounting for the entire upward revision. Job growth was more broadly based across private sector industry groups, with the one-month hiring diffusion index rising to 57.6 percent. Average hourly earnings rose by 0.4 percent, matching our above-consensus forecast, good for a 3.1 percent year-on-year increase, while aggregate private sector wage and salary earnings, the largest block of personal income, rose by 0.5 percent and are up 4.4 percent year-on-year. Moreover, with the upward revisions to private sector job growth, prior estimates of growth in aggregate earnings for August and September were revised higher. As we anticipated, the unemployment rate fell to 4.1 percent in October, but at the same time the broader U6 measure, which also accounts for underemployment, rose to 7.9 percent from 7.6 percent in September, in part due to an increase in the number of those working part-time for economic reasons. It's hard to find much to not like in the October employment report, but we'll point to what remains an ongoing issue, i.e., notably low initial collection rates to the BLS's monthly establishment survey. October's rate of 59.7 percent is above September's rate of 53.1 percent but still low and well below the 2026 average to date, leaving open the possibility of sizable revisions to the initial October estimates of payrolls, hours, and earnings.

We have for some time been flagging a high volume of seasonal adjustment noise in the monthly estimates of nonfarm job growth, which makes it worth noting the absence of such noise in the October data. To that point, the not seasonally adjusted data show total private sector payrolls rose by 0.53 percent in October, well above average for the month and the largest October increase since 2022. Two places we saw larger than normal October increases in not seasonally adjusted payrolls are retail trade and warehousing and delivery services. As we noted in our preview of the October data, October marks the start of seasonal hiring in these two industry groups. That these two groups saw much larger than normal October increases suggests a strong start to holiday season hiring, a nice rebound after last year saw some of the weakest seasonal hiring in several years. That said, November is the month in which such seasonal hiring is the strongest, so that will be the true test.

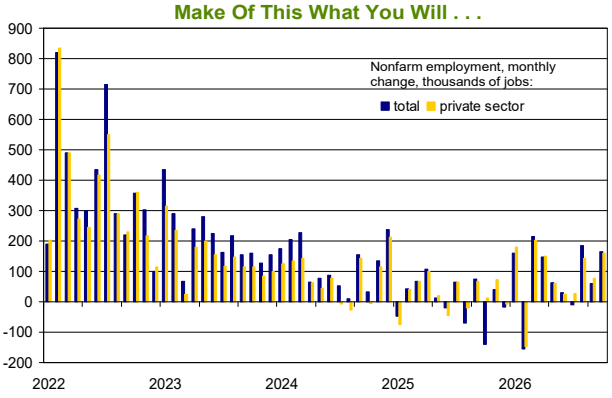
We've been increasingly frustrated by the volatility in the estimates of seasonally adjusted job growth, and that volatility continues, as our first chart below shows. As such, we remain focused on the longer-term trends in the not seasonally adjusted data, which have presented a much more stable, not to mention a much more plausible, story of job growth. Over the past two months, what had been a notably stable trend rate of job growth since early last year has picked up. It's too soon to know whether this will be sustained, and even if so, trend growth won't come close to the pre-pandemic trend rate, but this is nonetheless an encouraging sign.

That job growth has been more broadly based is also an encouraging sign. While health care/social assistance continues to post sizable monthly job gains, the hiring diffusion index points to more widely dispersed job gains, even if of a smaller magnitude than health care/social assistance. Payrolls in business services rose by 70,000 jobs in October, while manufacturing payrolls rose by 19,000 jobs, with payrolls amongst producers of durable goods up by 25,000 jobs. One downside risk is that curbs on AI investment and/or data center buildouts lead to scaled-back employment and output in the durable goods sector.

Far too much is being made about the 0.4 percent increase in average hourly earnings. Indeed, we even heard someone refer to that gain as "a dark cloud" looming in the October employment report. It would be hard for us to think of a more ridiculous characterization, at least for those aware that there is actually a supply side of the economy. To that point, trend labor productivity growth has accelerated over the past three years, ahead of any boost from AI. Couple that with a stable, or possibly rising, trend rate of private sector job growth, and the result is faster real growth. One could argue that wage growth has not kept pace with productivity growth, particularly with inflation where it is. While not everyone seems to understand this, Fed Chair Warsh clearly does. As such, we don't think the October increase in hourly earnings seals the deal for a December hike in the Fed funds rate.

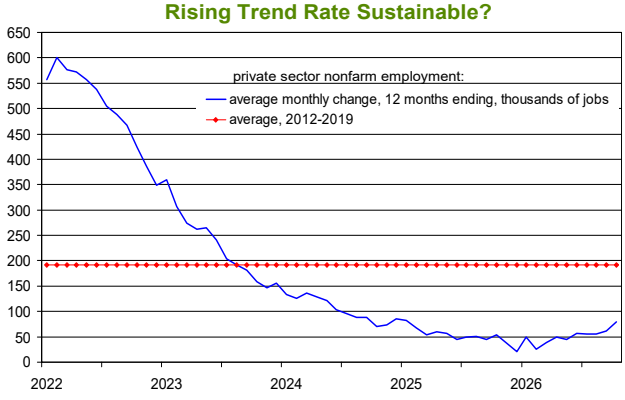
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Rising Trend Rate Sustainable?



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