

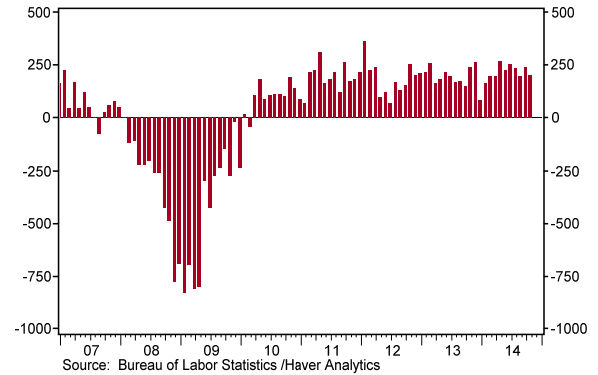
October Employment Report

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

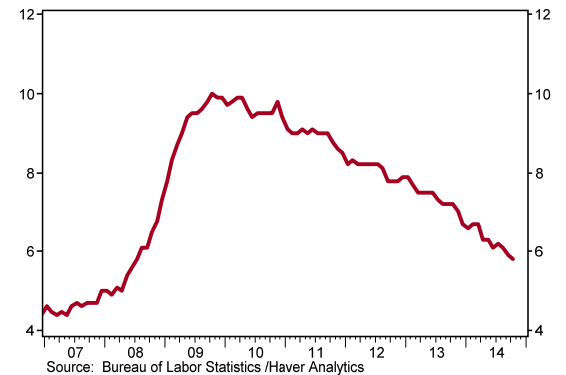
- Nonfarm payrolls increased 214,000 in October (245,000 including upward revisions to prior months), versus a consensus expected 235,000.
- Private sector payrolls increased 209,000 in October. Including revisions to prior months, private payrolls increased 242,000. The largest gains were for restaurants & bars (+42,000), education & health (+41,000), professional & business services (+37,000, including temps), and retail (+27,000). Manufacturing increased 15,000 while government rose 5,000.
- The unemployment rate dropped to 5.8% (5.756% unrounded) in October from 5.9% (5.942% unrounded) in September.
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – were up 0.1% in October and are up 2.0% versus a year ago.

Implications: Month after month, the job market continues to make solid progress. Although nonfarm payrolls grew a little less than the consensus expected in October, they still grew a respectable 214,000 and were up 245,000 including revisions for prior months, with all of the upward revisions coming from the private sector. Even at 214,000, that’s the ninth month in a row above 200,000. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, exploded to the upside, rising 683,000 in October. As a result, the job market was able to absorb a 416,000 increase in the labor force (people working or looking for work) and still push the unemployment rate down to a new low of 5.8% for the recovery. Although the headline jobless rate only ticked down one-tenth of a percent, unrounded numbers show the decline was very close to two-tenths, to 5.756% from 5.942%. More important, the jobless rate is now where the Federal Reserve, as recently as September, thought it would be in mid-2015. In other words, we think today’s data support our forecast that the Fed will start raising short-term rates in the first half of next year. Also, look for the Fed to remove the “considerable time” language in its statement (regarding how long it will keep short-term rates near zero) at the next meeting in mid-December. Another sign of improvement that will get the Fed’s notice is that the participation rate finally appears to be leveling off after many years of decline. The participation rate ticked up to 62.8% in October, which is the same as where it was a year ago. That may not sound like much, but it’s the first time in this recovery the participation rate has not been down from where it was the prior year. It’ll be interesting to see whether a mild acceleration in economic growth over the next couple of years can offset the continued aging of baby Boomers to keep participation roughly unchanged. Perhaps the best news in today’s report was that the total number of hours worked increased 0.5% and are up 2.8% in the past year. This helps offset slow growth in average hourly earnings, up only 0.1% in October and 2% versus a year ago. Looking at wages and hours combined, total cash earnings are up 4.9% in the past year, which will translate into growing consumer spending in the months ahead. If you are pre-disposed to gripe about the labor market, there are still things to complain about; the labor market is far from fully healed. Better policies would certainly have resulted in faster job growth the past several years. But nonfarm payrolls are up 220,000 per month in the past year and we expect more job growth, less unemployment, and faster wage growth in the year ahead.

Change in Total Private Payrolls
 SA, Thous



Civilian Unemployment Rate: 16 yr +
 SA, %



Employment Report All Data Seasonally Adjusted	Oct-14	Sep-14	Aug-14	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	5.8	5.9	6.1	5.9	6.1	6.4
Civilian Employment (monthly change in thousands)	683	232	16	310	269	317
Nonfarm Payrolls (monthly change in thousands)	214	256	203	224	235	220
Construction	12	19	17	16	16	19
Manufacturing	15	9	3	9	15	14
Retail Trade	27	34	-4	19	22	21
Finance, Insurance and Real Estate	3	12	12	9	12	7
Professional and Business Services	37	55	49	47	53	55
Education and Health Services	41	43	50	45	46	36
Leisure and Hospitality	52	48	26	42	34	32
Government	5	12	3	7	5	5
Avg. Hourly Earnings: Total Private*	0.1%	0.0%	0.3%	1.8%	2.0%	2.0%
Avg. Weekly Hours: Total Private	34.6	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.5%	0.2%	0.2%	3.6%	3.0%	2.8%

*3, 6 and 12 month figures are % change annualized