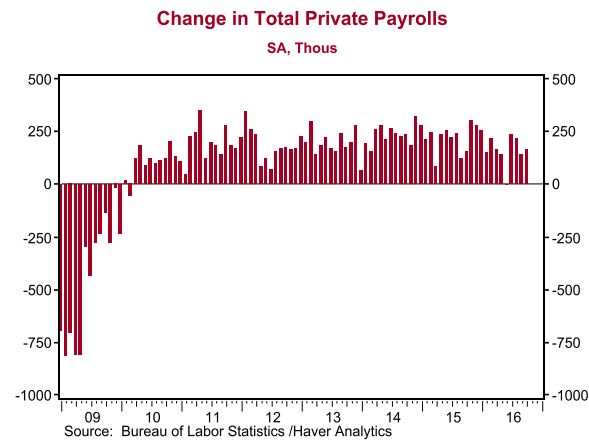


September Employment Report

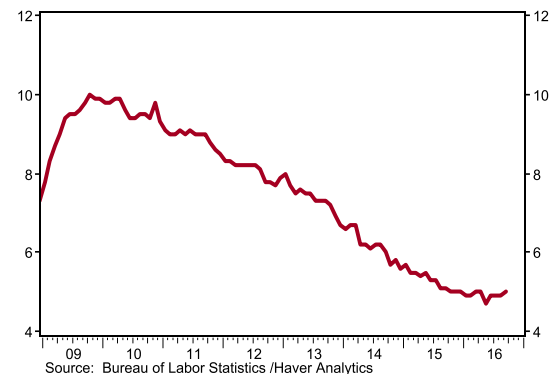
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- Nonfarm payrolls increased 156,000 in September versus a consensus expected 172,000. Including revisions to July/August, payrolls rose 149,000.
- Private sector payrolls increased 167,000 in September, although revisions to prior months added 14,000. The largest gains in September were for professional & business services (+67,000, including temps), health care (+33,000), construction (+23,000), and retail (+22,000). Manufacturing payrolls fell 13,000 while government declined 11,000.
- The unemployment rate ticked up to 5.0% (4.965% unrounded) from 4.9% (4.922% unrounded) in August.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in September and are up 2.6% versus a year ago.



Implications: The major headlines on today’s employment report were a little weaker than expected, but a close look at the details shows the report was much stronger than the headlines. The first key headline was that nonfarm payrolls expanded 156,000 in September, while prior months were revised down a net 7,000. That leaves us short of the consensus expected 172,000. However, government payrolls fell 11,000 in September and were revised down 21,000 for prior months. *Private sector payrolls*, including upward revisions for prior months, came in higher than the consensus expected. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, grew 354,000 in September and is up 252,000 per month in the past year. Although some analysts will say part-timers accounted for all the gain in September, the data separating full-timers and part-timers are extremely volatile from month to month. In the past year, part-time employment is up only 52,000 per month. The other negative headline was that the unemployment rate ticked up to 5.0% from 4.9%. But that was due to rounding. The unrounded jobless rate was 4.965% in September versus 4.922% in August, so the unrounded change in the jobless rate was less than half of the 0.1 percentage point increase. Moreover, the main reason for the increase in the jobless rate was a 444,000 gain in the labor force, which is now up more than 3 million in the past year, the largest increase since 2006 and larger than almost any 12-month period in the late 1990s. The participation rate is still very low by the standards of the past generation, but the cyclical improvement in the economy is now offsetting downward pressure from aging Boomers, easily available disability benefits, and overly generous student aid. Other details in the report also signal strength. Total hours worked increased 0.4% and are up 1.6% in the past year. Meanwhile, average hourly earnings rose 0.2% in September and are up 2.6% from a year ago. Combined, this means total cash earnings (which exclude fringe benefits and irregular bonuses/commissions) are up 4.3% in the past year, which is plenty of fuel to push consumer spending higher. Meanwhile, the median duration of unemployment fell back to 10.3 weeks, tying the low so far in the expansion. One last key positive was that the share of voluntary job leavers among the unemployed was 11.2% in September, near the highest since 2007. In the past, Fed Chief Yellen has said a higher share of leavers indicates more labor market tightness. Taken as a whole, we think the Fed will view today’s report as a reason to stay on track for a December rate hike.

Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Sep-16	Aug-16	Jul-16	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	5.0	4.9	4.9	4.9	4.9	4.9
Civilian Employment (monthly change in thousands)	354	97	420	290	108	252
Nonfarm Payrolls (monthly change in thousands)	156	167	252	192	169	204
Construction	23	-5	16	11	1	18
Manufacturing	-13	-16	2	-9	-5	-4
Retail Trade	22	21	13	19	13	26
Finance, Insurance and Real Estate	6	13	17	12	15	14
Professional and Business Services	67	31	84	61	53	49
Education and Health Services	29	57	42	43	46	51
Leisure and Hospitality	15	21	36	24	24	31
Government	-11	23	31	14	16	12
Avg. Hourly Earnings: Total Private*	0.2%	0.1%	0.4%	2.7%	2.7%	2.6%
Avg. Weekly Hours: Total Private	34.4	34.3	34.4	34.4	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.4%	-0.2%	0.2%	1.5%	1.5%	1.6%

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