

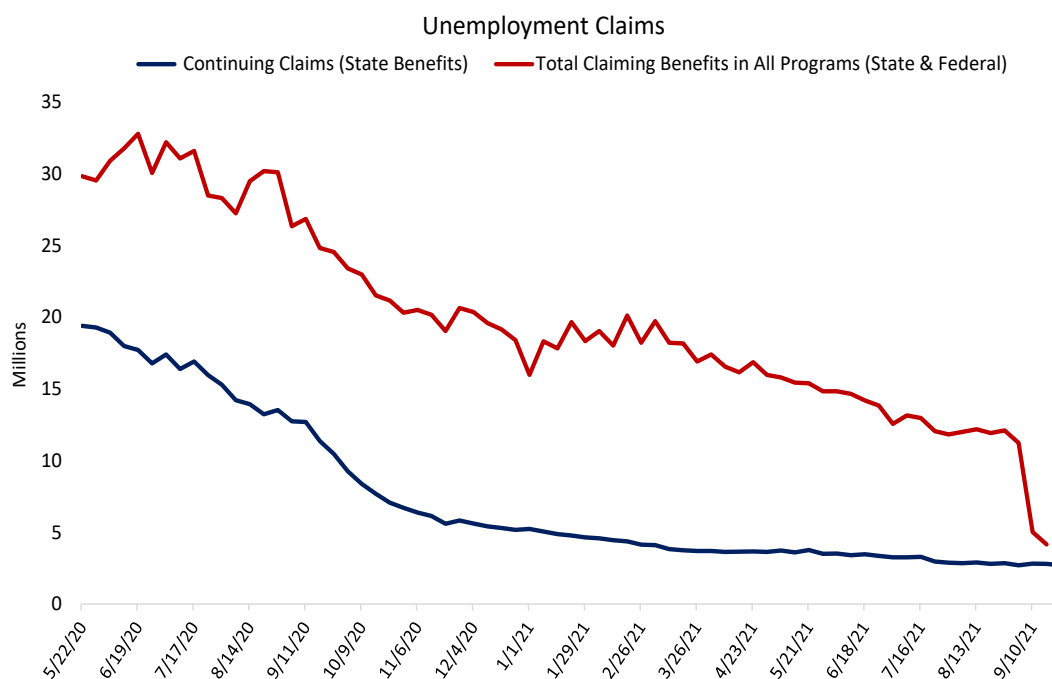
Making Sense of Another Head-Scratching Payroll Miss

Nonfarm payrolls rose by just +194k in September, well below the +500k median forecast and all but one of the 71 economist forecasts tallied by Bloomberg. The widely-held belief was that 11 million Americans losing federal unemployment benefits on September 6th would now be incentivized to accept a more significant number of the millions of available jobs. *Surprisingly, it didn't happen last month.* The best excuses this time are that the cutoff date for the September employment survey was just a week after Labor Day, the Delta variant was still raging at the time, and elevated savings rates and other federal benefits have taken the urgency out of the job search.

The number of Americans collecting unemployment benefits fell sharply with the expiration of supplemental federal pandemic unemployment programs in September.

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The biggest contributor to the miss was state and local education jobs, which subtracted a combined -163k. *Seasonal adjustment factors for education are reportedly a mess.*

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Manufacturing added +26k jobs, despite a -6k drop in auto and auto parts. Construction contributed +22k jobs last month, but is essentially flat on the year. Retail chipped in +56k jobs with almost half coming from clothing and clothing accessories.

Upward revisions to the two previous months added +169k jobs. So far this year, nonfarm payrolls have increased by just over 5 million, but the total remains roughly 5 million *below* pre-pandemic levels. The Fed would like to see these jobs return . . . *and they have*. The ongoing problem is that the open positions aren't being filled, and this may not be solvable though tweaks to the Fed monetary policy.

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The separate household survey told a somewhat different story with a September job increase of +526k while -183k exited the labor force, dragging the headline unemployment rate down from 5.2% to 4.8%, the lowest in 18 months. However, the number of Americans not currently seeking work, but interested in having a suitable job at some point, totaled 6 million in September. Because these folks haven't looked for work in the last month, they are not included in the headline unemployment number. Five million people were unable to work because their employer closed or lost business due to the pandemic, down from 5.6 million in August. This number should drop further as the COVID wave continues to recede.

The labor force participation rate slipped from 61.7% to 61.6% last month, now 1.7 percentage points *below* the pre-pandemic level. The employment-to-population ratio, at 58.7%, remains well below the 61.1% level of February 2020. It's debatable that these folks will be coming back as ballooning household wealth has allowed an increased portion of the population to remain sidelined or simply retire.

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The bar for Fed tapering was thought to be extremely low, so at this point a scaling back of QE asset purchases is still likely this year. However, the frustrating state of employment suggests that the Fed will be less aggressive in reeling-in its accommodative policy. This would normally bode well for stocks as the punchbowl could be in place longer, but the major indexes are mixed this morning as investors struggle to make sense of the continued labor market disconnect.

Market Indications as of 10:05 A.M. Central Time

DOW	Up 7 to 34,762 (HIGH: 35,625)
NASDAQ	Down -27 to 14,627 (HIGH: 15,374)
S&P 500	Up 2 to 4,402 (HIGH: 4,537)
1-Yr T-bill	current yield 0.09%; opening yield 0.08%
2-Yr T-note	current yield 0.32%; opening yield 0.31%
3-Yr T-note	current yield 0.57%; opening yield 0.57%
5-Yr T-note	current yield 1.04%; opening yield 1.03%
10-Yr T-note	current yield 1.60%; opening yield 1.58%
30-Yr T-bond	current yield 2.16%; opening yield 2.13%

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