Scattered Signs of Labor Softness Not Enough to Dissuade Fed

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Nonfarm payrolls rose by +263k in September, the smallest increase of the year, but *not nearly weak enough for Fed officials to rethink their policy stance for the November FOMC meeting*.

Establishment data from the Bureau of Labor Statistics showed the two industry sectors hardest hit by the pandemic contributed the majority of job gains last month. Leisure and hospitality payrolls added +83k workers in September and are now just 1.1 million short of the February 2020 count, while health care payrolls increased by +60k and have finally returned to pre-pandemic levels.

Other gains of note were found in business and professional services (+46k), manufacturing (+22k) and construction (+19k). Sectors shedding jobs included transportation and warehousing (-8k) and state and local governments (-27k). Apparently, questionable seasonal revisions affecting teachers lowered the government count and overall payrolls.

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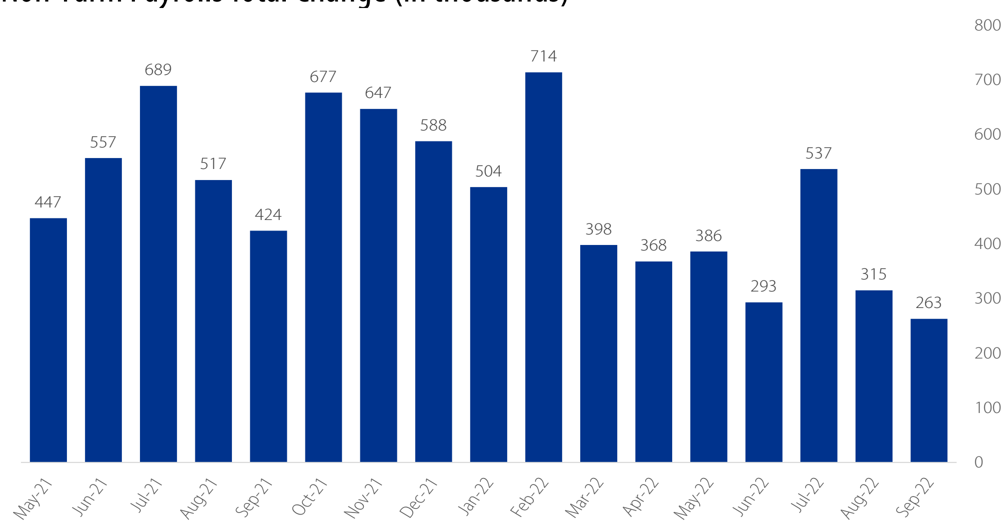
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

In the separate household survey, the headline unemployment rate fell from 3.7% to 3.5%, returning to the 53-year low. This *is a good news is bad news* story as Fed officials had actually hoped to see signs of weakening. [1]The underlying reason for the drop in unemployment was an unwelcomed decline in the labor force participation rate. There were 5.8 million Americans seeking work in September, down slightly from the previous month, while another 5.8 million remained on the sidelines. Of these, 1.6 million considered themselves available for work, but had not actively sought employment in the past 30 days.

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Average hourly earnings rose by +0.3% for the fifth time in the last six months, equaling the median forecast. On a year-over-year basis, earnings were up +5.0%, matching the median forecast and continuing a *too-gradual* decrease from the +5.7% annual pace back in January.

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Pandemic-related, supplemental data showed labor conditions continuing to normalize as just 5.2% of employed Americans teleworked last month, down from 6.5% in August and 35.4% during the May 2020 economic shutdown. And, 1.4 million reported they were unable to work because their employer closed or lost business due to COVID-19. This is -500k below the August total, and now just a fraction of the 49.8 million unable to work back in May 2020.

The bottom line is that the labor market remains far too brisk to make meaningful strides in reducing wages. Fed officials are concerned that a wage-price spiral could establish itself, whereby higher wages lead to increased demand for goods, which in turn increases inflation, which necessitates higher and higher worker pay. After this morning's release, a fourth consecutive 75 basis point increase at the November 2nd FOMC meeting is appears certain. Bonds have sold off in early trading, reflecting the likelihood of another oversized hike next month.

Market Indications as of 9:20 A.M. Central Time

DOW	Down -452 to 29,475 (HIGH: 36,800)
NASDAQ	Down -279 to 10,794 (HIGH: 16,057)
S&P 500	Down -82 to 3,663 (HIGH: 4,797)
1-Yr T-bill	current yield 4.25%; opening yield 4.13%
2-Yr T-note	current yield 4.31%; opening yield 4.27%
3-Yr T-note	current yield 4.33%; opening yield 4.27%
5-Yr T-note	current yield 4.13%; opening yield 4.07%
10-Yr T-note	current yield 3.89%; opening yield 3.82%
30-Yr T-bond	current yield 3.86%; opening yield 3.78%