Persistent Labor Market Strength Undermines Fed Policy

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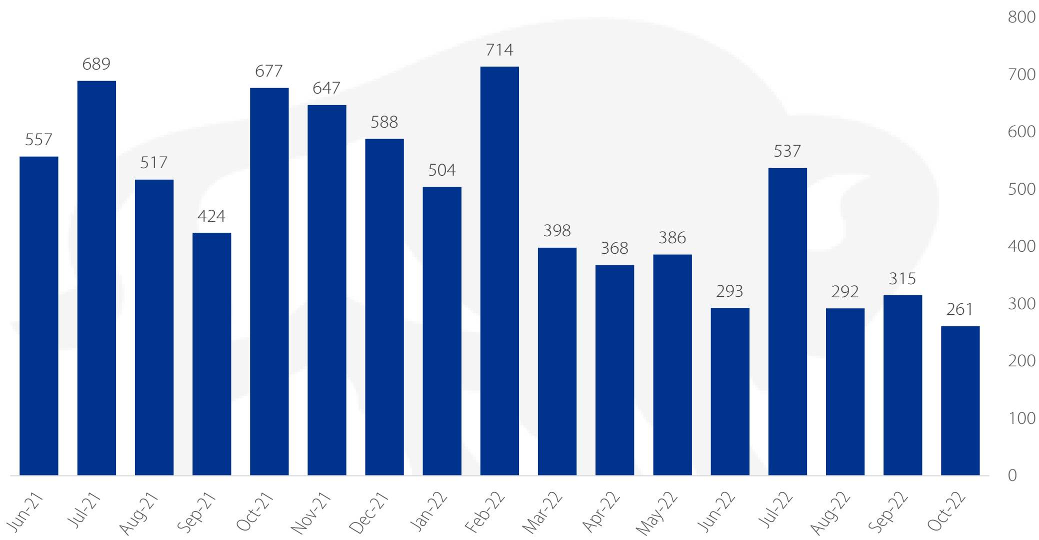
On the surface, the October payroll report was uncomfortably solid, but signs of decelerating job growth signal slowing ahead. The +261k gain in nonfarm payrolls last month exceeded the +193k median forecast, while September payrolls were revised upward from +263k to +315k. Over the past three months, company payrolls have risen by an average +280k, down from a +471k pace over the first seven months of 2022 and +562k per month last year.

Payroll gains were widespread last month with notable increases in healthcare (+53k), professional and technical services (+43K), leisure and hospitality (+35k), manufacturing (+32k) and government (+28k). The pace of hiring in the healthcare sector has accelerated sharply this year, with an average of +47k jobs added per month compared to an average of +9k in 2021. Factory hires have also picked-up from an average of +30k in 2021 to +37k this year.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The unemployment rate climbed from a five-decade low of 3.5% to 3.7% in October. The number of unemployed Americans actively seeking work climbed more than +300k to 6.1 million last month. In addition, another 5.7 million were not counted among the unemployed, having not looked for work within the last month, but would accept a suitable job if offered.

Average hourly earnings rose +0.4%, following +0.3% increases in both of the previous two months. On an annual basis, hourly earnings eased back from a +5.0% pace to +4.7%, as expected.

Financial markets have swung wildly this morning as investors sort through the labor report and guess at the Fed's reaction.

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The bottom line is labor market strength continues to undermine FOMC efforts to curtail demand, which signals Fed officials may need to tighten policy more aggressively. However, committee members provided the flip-side of this argument on Wednesday, reminding investors that monetary policy acts with a significant lag and the massive 375 basis points of tightening since March will have a cumulative effect on inflation and the economy in the coming months. As the early market sell-off turns into a week-ending rally, investor have chosen to embrace the flip-side.

Market Indications as of 9:28 A.M. Central Time

DOW	Up 546 to 32,547 (HIGH: 36,800)
NASDAQ	Up 173 to 10,516 (HIGH: 16,057)
S&P 500	Up 52 to 3,772 (HIGH: 4,797)
1-Yr T-bill	current yield 4.77%; opening yield 4.72%
2-Yr T-note	current yield 4.66%; opening yield 4.73%
3-Yr T-note	current yield 4.59%; opening yield 4.66%
5-Yr T-note	current yield 4.32%; opening yield 4.38%
10-Yr T-note	current yield 4.12%; opening yield 4.16%
30-Yr T-bond	current yield 4.20%; opening yield 4.20%