October Employment Report Puts Labor Worries Back in Play

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As expected, storms and strikes contributed to the lowest payroll count in nearly four years, but surprising weakness in previous months has rekindled concerns of a deteriorating labor market, nudging bond yields lower.

The establishment survey showed an October payroll increase of just +12k, well below the +112k median forecast. Economists had expected a significant decline as a result of hurricanes Helene and Milton, but the October data was quite a bit weaker. The bigger surprise this morning was found in unusually large revisions to previous months. September payrolls were revised downward from +254k to +223k while the August count was lowered from +159k to +78k. *Suddenly, Fed concerns over a softening labor market are back in play.*

There's little point in going through the various job sectors as it's difficult to determine specific storm impact, but there were a couple of notable changes worth mentioning. In particular, manufacturing lost -46k jobs, of which 44k were strike-related. Temporary jobs were -49k lower, continuing to indicate employers are letting temp workers go, presumably before considering reduction of the permanent staff.

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The separate household survey showed a -368k decrease in employed workers and a -220k drop in the civilian labor force. The combination moved the unemployment rate up from 4.051% to 4.145%, *although both months rounded to 4.1%*. Thus, the headline appears as if the unemployment rate was unchanged, although it was up nearly a tenth. Since storm- and strike-impacted workers are still considered employed in the household survey, the weakness is more pronounced.

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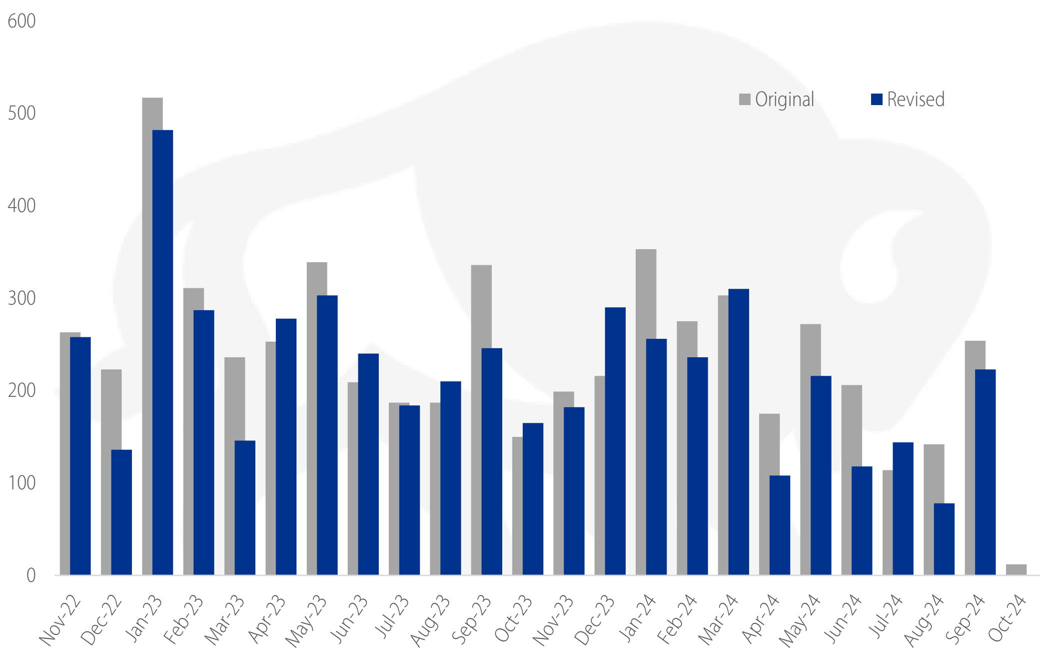
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Average hourly earnings rose by +0.4% in October. Although this was above the +0.3% forecast, the September gain was lowered from +0.4% to +0.3%, and the annual earnings rate slipped back to +3.9%.

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Both stocks and bonds are rallying in early trading (yields lower) on increased expectations for Fed easing.

Market Indications as of 9:09 A.M. Central Time

DOW	Up 386 to 42,150 (HIGH: 43,276)
NASDAQ	Up 183 to 18,279 (HIGH: 18,713)
S&P 500	Up 44 to 5,749 (HIGH: 5,865)
1-Yr T-bill	current yield 4.23%; opening yield 4.26%
2-Yr T-note	current yield 4.13%; opening yield 4.17%
3-Yr T-note	current yield 4.10%; opening yield 4.14%
5-Yr T-note	current yield 4.14%; opening yield 4.16%
10-Yr T-note	current yield 4.29%; opening yield 4.29%
30-Yr T-bond	current yield 4.49%; opening yield 4.48%