

## October Employment Report Puts Labor Worries Back in Play

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.

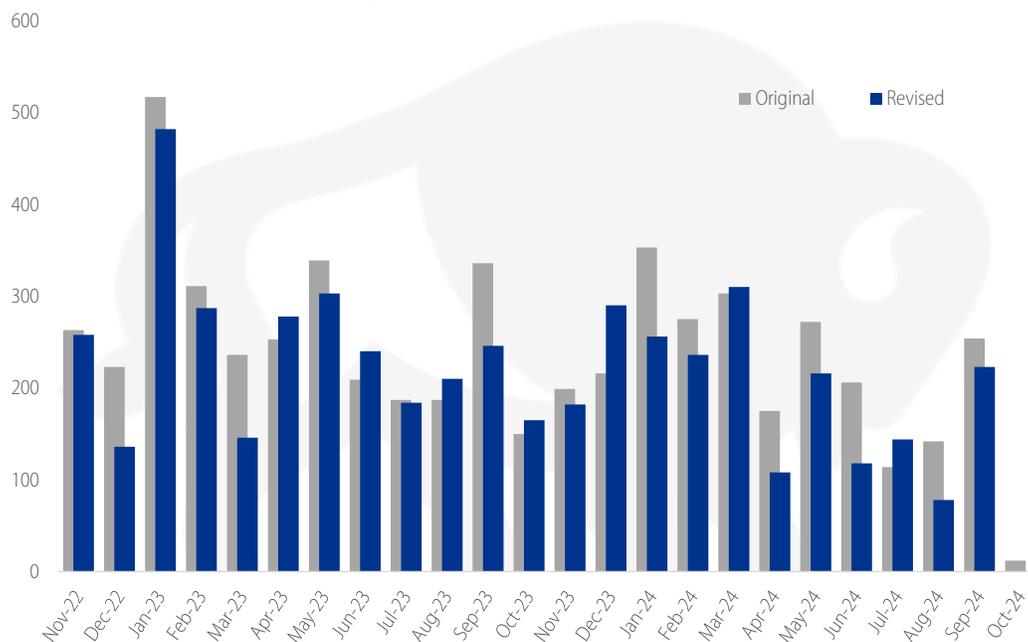
The separate household survey showed a -368k decrease in employed workers and a -220k drop in the civilian labor force. The combination moved the unemployment rate up from 4.051% to 4.145%, *although both months rounded to 4.1%*. Thus, the headline appears as if the unemployment rate was unchanged, although 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)



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Source: Bureau of Labor Statistics

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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%.

The takeaway from an unusually noisy employment report is that the labor market does seem to be losing steam. As a result, the Fed should be a little more incentivized to cut rates. The October report should validate a 25 bp rate cut next week.

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

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## 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%

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