Mixed Employment Data Boosts Chances of December Cut

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The September employment report was 48 days late but drew considerable investor attention amid an otherwise barren economic release schedule. The overall report was mixed, with the improvement in the establishment survey offset by weakness in the household survey. Given the choice, financial markets (so far) have chosen to embrace the weakness, increasing the probability of a December rate cut.

U.S. companies reported a +119k increase in nonfarm payrolls in September, more than doubling the +51k median forecast. Prior month revisions subtracted -33k, with the previously-reported +22k August gain lowered to a -4k loss.

Notable job gains were concentrated in healthcare and social assistance (+57k), leisure and hospitality (+47k) and retail trade (+14k). Surprisingly, +19k construction workers were added to payrolls in September after several months of decline.

Manufacturing jobs fell for the fifth straight month with *6,000 fewer factory workers* employed in September. Other sectors shedding workers included transportation and warehousing (-25k), business and professional services (-20k), and motor vehicles and parts (-1k). Temporary help services fell for the sixth straight month (-16k). This is considered a leading indicator of labor market weakness as employers typically reduce the number of temp workers before permanent staff.

Average hourly earnings were mixed. The month of September registered a +0.2% gain, down from a revised +0.4% reading in August, while the year-over-year increase held at +3.8% following an upward revision in August. With much of the recent hiring concentrated in the lower earning job categories, wage inflation should be less of a concern for Fed officials.

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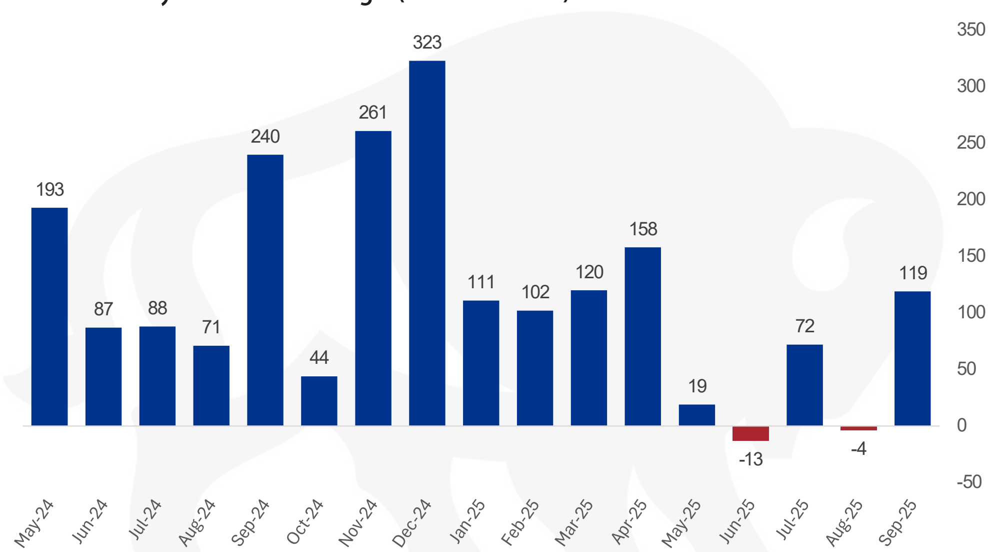
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

The separate household survey revealed that +470k entered the labor force in September, with +251k finding work and +219k seeking employment. This combined to drive the unemployment rate up from 4.32% to 4.44%, *the highest since October 2021*.

This report is arguably too stale to be of much value, but Fed officials will not see the (partial) October numbers or the November report before the next FOMC meeting on December 10. The fact that company payrolls rebounded significantly prior to the shutdown should have further reduced the likelihood of a December cut. *So far this morning, that hasn't been the case* as the futures market is now signaling a 35% probability of a third straight quarter point reduction, up from 29%. The reasoning behind the increased expectation is probably the fact that unemployment has unexpectedly climbed to a four-year high.

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Market Indications as of 10:03 A.M. Central Time

DOW	Up 548 to 46,687 (HIGH: 48,255)
NASDAQ	Up 409 to 22,973 (HIGH: 23,958)
S&P 500	Up 114 to 6,756 (HIGH: 6,891)
1-Yr T-bill	current yield 3.67%; opening yield 3.66%
2-Yr T-note	current yield 3.57%; opening yield 3.60%
3-Yr T-note	current yield 3.56%; opening yield 3.59%
5-Yr T-note	current yield 3.68%; opening yield 3.72%
10-Yr T-note	current yield 4.11%; opening yield 4.14%
30-Yr T-bond	current yield 4.73%; opening yield 4.76%