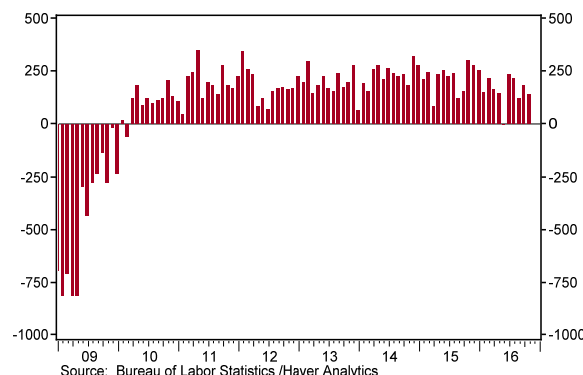


October Employment Report

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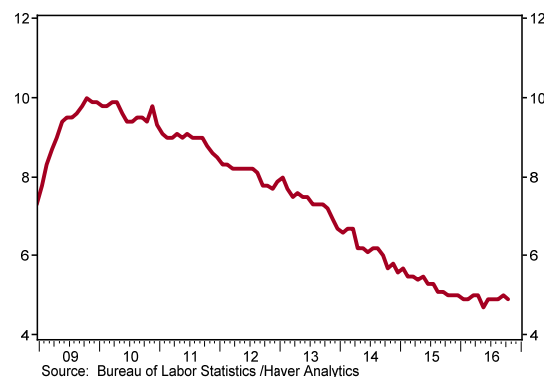
- Nonfarm payrolls increased 161,000 in October versus a consensus expected 173,000. Including revisions to August/September, payrolls rose 205,000.
- Private sector payrolls increased 142,000 in October, although revisions to prior months added 9,000. The largest gains in October were for education & health care (+52,000) and professional & business services (+43,000, including temps). Manufacturing payrolls fell 9,000 while government rose 19,000.
- The unemployment rate ticked down to 4.9% (4.876% unrounded) from 5.0% (4.965% unrounded) in September.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.4% in October and are up 2.8% versus a year ago.

Change in Total Private Payrolls
SA, Thous



Implications: On the surface, today’s employment report was neither strong nor weak, just very much in-line with moderate Plow Horse growth. However, the details are a clear sign the Fed needs to raise rates. Nonfarm payrolls increased 161,000 in October and were revised up 44,000 for prior months, bringing the net gain to 205,000, although most of the revisions were for government jobs. Private sector payrolls grew 142,000 in October and were up 151,000 including upward revisions to prior months. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, declined 43,000 in October. Don’t get worried about that drop. Civilian employment is very volatile from month to month and is up an average of 227,000 per month in the past year, even higher than the average payroll gain of 196,000. Also don’t get worried about the 195,000 drop in the labor force in October. That is also volatile month to month and up an average of 218,000 per month in the past year. In the meantime, though, that drop in the labor force pushed the unemployment rate down to 4.9%, very close to the Fed’s long-run projection of 4.8%. But what should really get the Fed’s attention is the 0.4% increase in average hourly earnings, which are now up 2.8% in the past year and up at a 3.1% annual rate in the past six months. Those are the fastest growth rates since the recession ended in 2009. In addition, the share of voluntary job leavers among the unemployed hit 12.1% in October, the highest since 2007. In the past, Janet Yellen has used this figure as a measure of labor-market tightness, saying that a higher share shows that workers have more confidence they can quit their job and quickly find a new one. Although some analysts will say part-timers accounted for all the gains in September and October, the data separating full-timers and part-timers are extremely volatile from month to month. In the past year, part-time employment is up only 43,000 per month. Total hours worked increased 0.2% in October and are up 1.5% in the past year. Combined with the earnings data, this means, total cash earnings (which exclude fringe benefits and irregular bonuses/commissions) are up 4.4% in the past year, which is plenty of fuel to push consumer spending higher. The labor market is a still far cry from where it would be with a better set of policies over the past decade or so, but that doesn’t mean we should deny the improvement that’s taking place.

Civilian Unemployment Rate: 16 yr +
SA, %



| Employment Report <i>All Data Seasonally Adjusted</i> | Oct-16 | Sep-16 | Aug-16 | 3-month moving avg | 6-month moving avg | 12-month moving avg |
|---|---------------|---------------|---------------|---------------------------|---------------------------|----------------------------|
| Unemployment Rate | 4.9 | 5.0 | 4.9 | 4.9 | 4.9 | 4.9 |
| Civilian Employment (monthly change in thousands) | -43 | 354 | 97 | 136 | 154 | 227 |
| Nonfarm Payrolls (monthly change in thousands) | 161 | 191 | 176 | 176 | 179 | 196 |
| Construction | 11 | 23 | -6 | 9 | 3 | 16 |
| Manufacturing | -9 | -8 | -16 | -11 | -7 | -4 |
| Retail Trade | -1 | 22 | 17 | 13 | 12 | 24 |
| Finance, Insurance and Real Estate | 14 | 4 | 18 | 12 | 14 | 14 |
| Professional and Business Services | 43 | 78 | 28 | 50 | 52 | 45 |
| Education and Health Services | 52 | 39 | 56 | 49 | 48 | 49 |
| Leisure and Hospitality | 10 | 7 | 10 | 9 | 20 | 25 |
| Government | 19 | 3 | 44 | 22 | 26 | 17 |
| Avg. Hourly Earnings: Total Private* | 0.4% | 0.3% | 0.1% | 3.3% | 3.1% | 2.8% |
| Avg. Weekly Hours: Total Private | 34.4 | 34.4 | 34.3 | 34.4 | 34.4 | 34.4 |
| Index of Aggregate Weekly Hours: Total Private* | 0.2% | 0.4% | -0.2% | 1.5% | 1.5% | 1.5% |

*3, 6 and 12 month figures are % change annualized