September Employment Report

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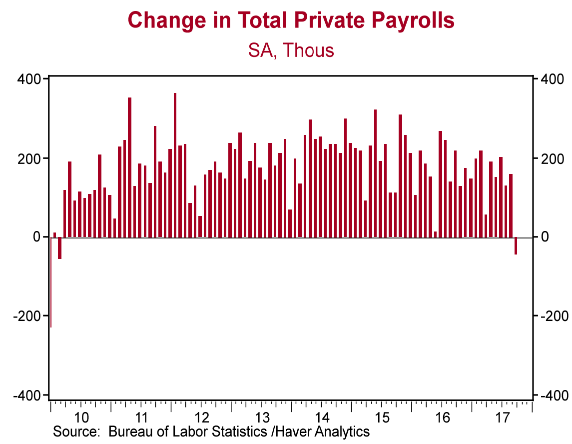
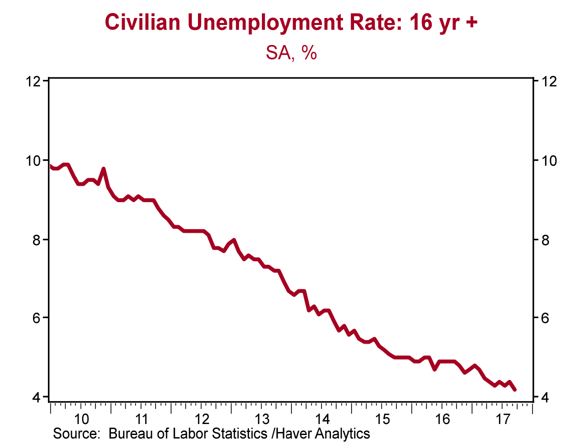
- Nonfarm payrolls declined 33,000 in September, well below the consensus expected gain of 80,000. Including revisions to July/August, nonfarm payrolls fell 71,000.
- Private sector payrolls declined 40,000 in September and revisions to prior months subtracted 70,000. The largest decline in September, by far, was for restaurants & bars (-105,000). The largest gains were for transportation & warehousing (+22,000) and education & health care (+27,000). Manufacturing slipped 1,000 while government rose 7,000.
- The unemployment rate dropped to 4.2% in September from 4.4% in August.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.5% in September and are up 2.9% versus a year ago.





Implications: Investors need to take all of today's employment report with a big grain of salt. That includes the negative news on jobs and the positive news on wages. And that goes for next month's report, as well, when we should see a big reversal in these numbers, with a surge in payrolls and relative weakness in hourly wage growth. The numbers on job growth were downright whacky. Nonfarm payrolls dropped 33,000. If this holds up through revisions, it'll be the first decline since 2010 and was much weaker than the consensus expected. However, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 906,000 in September. Our first guess would be that the unusually large gap between the two surveys is due to the timing of Hurricane Irma, which hit the US right at the beginning of the payroll survey week. But the civilian employment report also says that 1.47 million workers missed work due to weather, the most for any month since the double-whammy of massive East Coast snowstorms in January 1996. In other words, the civilian employment report apparently did get affected by the storms and still rose sharply! The surge in civilian employment helped drive the jobless rate to 4.2%, the lowest since 2001. Perhaps the best news for September was that average hourly earnings rose 0.5% and are up 2.9% versus a year ago. However, with payrolls dropping the most for relatively low-wage workers (restaurants & bars), the surge in wage growth should unwind next month. The one measure we follow closely that should not have been affected by the storms is total earnings, which combines the total number of hours worked (which were held down by the storms) and average hourly earnings (which were boosted by the storm). Total earnings rose a healthy 0.4% in September and are up 4.3% from a year ago, signaling plenty of growth in consumer purchasing power. A month ago, the market's odds of a December rate hike were about one-in-three. At the time, we said we thought the odds should be more like 75%. Today, the market's odds are up to 80% and we think that's about right. And if the economy keeps growing at the recent pace, the odds of a December rate hike will only go higher. That's especially true if Washington gets its act together and finds a way to quickly pass tax cuts or tax reform.

Employment Report *All Data Seasonally Adjusted*	Sep-17	Aug-17	Jul-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**4.2**	4.4	4.3	4.3	4.3	4.5
Civilian Employment (monthly change in thousands)	**906**	-74	345	392	224	241
Nonfarm Payrolls (monthly change in thousands)	**-33**	169	138	91	139	148
Construction	**8**	19	-9	6	7	15
Manufacturing	**-1**	41	-11	10	10	10
Retail Trade	**-3**	-7	-11	-7	-7	-7
Finance, Insurance and Real Estate	**10**	8	11	10	12	12
Professional and Business Services	**13**	43	43	33	40	44
Education and Health Services	**27**	45	51	41	41	39
Leisure and Hospitality	**-111**	0	50	-20	12	16
Government	**7**	5	5	6	4	2
*Avg. Hourly Earnings: Total Private**	**0.5%**	0.2%	0.5%	4.3%	3.2%	2.9%
Avg. Weekly Hours: Total Private	**34.4**	34.4	34.4	34.4	34.4	34.4
*Index of Aggregate Weekly Hours: Total Private**	**-0.1%**	0.2%	-0.2%	-0.4%	1.9%	1.4%

*Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized*