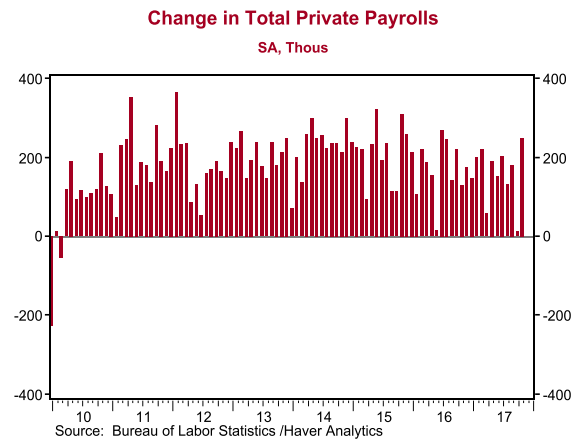


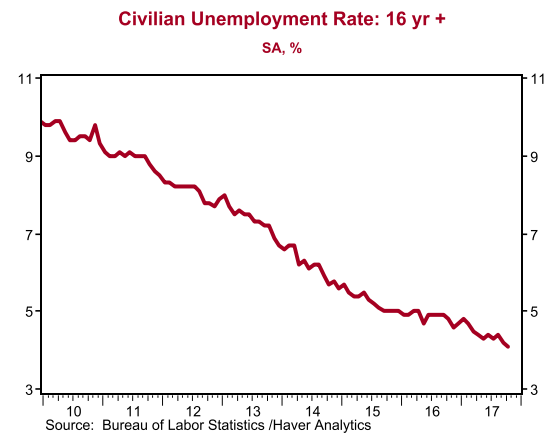
October Employment Report

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- Nonfarm payrolls rose 261,000 in October, below the consensus expected 313,000. Including revisions to August/September, nonfarm payrolls increased 351,000.
- Private sector payrolls rose 252,000 in October and revisions to prior months added 75,000. The largest increases in October, by far, were for restaurants & bars (+89,000), followed by professional & business services (+50,000, including temps) and education & health care (+41,000). Manufacturing increased 24,000 while government rose 9,000.
- The unemployment rate dropped to 4.1% in October from 4.2% in September.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – were unchanged in October but are up 2.4% versus a year ago.



Implications: Payrolls didn't bounce as much as expected in October, but the report was still good news about the US economy. Nonfarm payrolls increased 261,000 in October, falling short of the consensus expected 313,000. However, the past two months were revised up a hefty 90,000. Combined with the increase in October itself, that's a gain of 351,000. Notably, last month's report that payrolls fell in September due to the hurricanes has been revised away, with payrolls up 18,000 for the month. The best way to think about it is that the storms didn't cut jobs by as much as previously thought, so the recovery bounce didn't need to be as sharp. Not all the news on the labor market was good, however. Civilian employment, an alternative measure of jobs that includes small-business start-ups, declined 484,000 in October. But that follows a 906,000 surge in September and civilian employment is still up 203,000 per month in the past year, versus a gain of 167,000 per month for payrolls. Despite the drop in civilian employment in October, the jobless rate fell to 4.1%, the lowest since 2000, as the size of the labor force declined 765,000. But don't believe the line that the jobless rate has only been falling due to fewer workers. The labor force is up 1.2 million in the past year even as the unemployment rate has declined from 4.8% to 4.1%. Notably, the U-6 unemployment rate, which includes discouraged workers and part-timers who want full-time work, fell to 7.9%, the lowest since 2006, before the financial panic. Some pessimists will focus on average hourly wages, which were unchanged in October. But wages popped 0.5% in September and this was just payback. We like to follow total earnings, which combines the total number of hours worked and average hourly earnings and total earnings are up 4.1% from a year ago, signaling plenty of growth in consumer purchasing power. Overall, this report will not derail the Fed along its path of another rate hike on December 13 and three more in 2018. Meanwhile, with the House GOP able to come together on a tax plan, we think the odds of tax cuts and tax reform are rising, which will only add to the bullish outlook for equities and odds of rate hikes in the coming years.



Employment Report <i>All Data Seasonally Adjusted</i>	Oct-17	Sep-17	Aug-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.1	4.2	4.4	4.2	4.3	4.5
Civilian Employment (monthly change in thousands)	-484	906	-74	116	118	203
Nonfarm Payrolls (monthly change in thousands)	261	18	208	162	163	167
Construction	11	11	24	15	10	16
Manufacturing	24	6	44	25	14	13
Retail Trade	-8	7	-2	-1	-5	-5
Finance, Insurance and Real Estate	5	13	10	9	11	13
Professional and Business Services	50	22	47	40	43	45
Education and Health Services	41	22	46	36	40	39
Leisure and Hospitality	106	-102	-9	-2	19	24
Government	9	3	24	12	6	4
Avg. Hourly Earnings: Total Private*	0.0%	0.5%	0.1%	2.1%	2.7%	2.4%
Avg. Weekly Hours: Total Private	34.4	34.4	34.4	34.4	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.0%	0.2%	1.5%	0.9%	1.6%

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