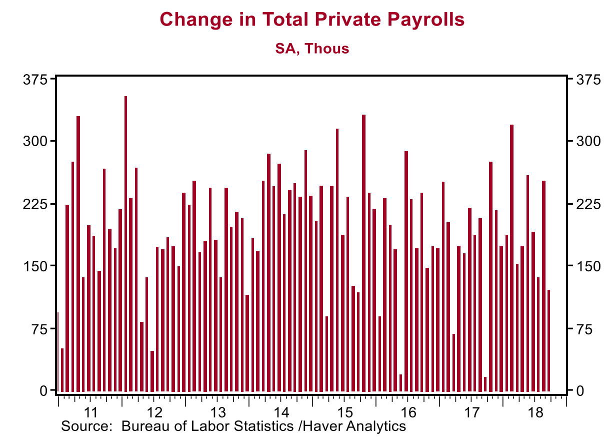
First Trust DATAWATCH

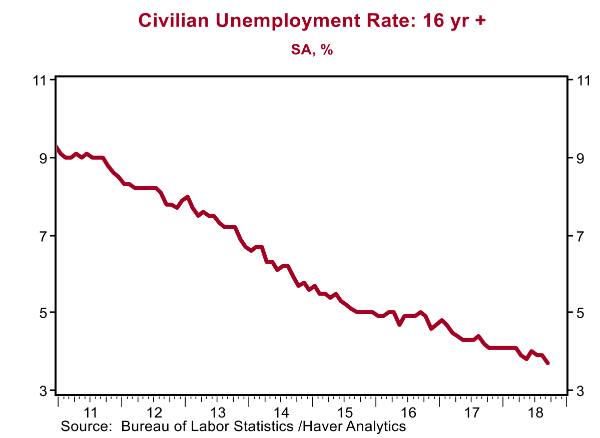
October 5, 2018 • 630.517.7756 • www.ftportfolios.com

September Employment Report

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Nonfarm payrolls rose 134,000 in September, lagging the consensus expected 185,000. Including revisions to July/August, nonfarm payrolls increased 221,000.
- Private sector payrolls rose 121,000 in September and revisions to prior months added 34,000. The largest increases in September were for professional & business services (+54,000, including temps), transportation & warehousing (+24,000), and construction (+23,000). Manufacturing gained 18,000 and government rose 13,000.
- The unemployment rate declined to 3.7% in September from 3.9% in August.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in September and are up 2.8% versus a year ago.





Implications: Don't worry about the soft pace of payroll growth in September, the underlying pace of job creation is still very strong. Although nonfarm payrolls grew only 134,000 in August, versus the consensus expected 185,000, there are some key reasons to think job growth will re-accelerate in the months ahead. First, Hurricane Florence likely held down payrolls. The civilian employment survey showed 299,000 people missed work due to weather last month. With the exception of September 2017 (due to Hurricanes Harvey and Irma) that's the most for any September on record (going back to 1976). Second, September payrolls typically undershoot consensus expectations even when there's not a major storm. Third, payroll growth was revised up by 87,000 for July and August. And last, civilian employment, an alternative measure of jobs that includes small business start-ups, rose 420,000 in September. The rest of the figures on the labor market report were generally good news. The unemployment rate fell to 3.7% in September, the lowest since 1969. At present, we're projecting an unemployment rate of 3.6% at year end and 3.1% at the end of 2019, which is part of the reason why we think the Federal Reserve will raise rates four times next year, not three times like the current "dot plot" suggests or twice like the bond market appears to think. The best news in today's report was that workers are earning higher wages. Average hourly earnings – which exclude extra earnings from irregular bonuses and commissions, like those paid out after the tax cut was passed – rose 0.3% in September, are up 2.8% in the past year, and up at a 3.8% annual rate in the past three months.. Meanwhile, total hours worked are up 2.6% in the past year. As a result, total cash earnings are up 5.4% in the past year, more than enough to keep pushing consumer spending higher. Some analysts still focus on the participation rate which remained at 62.7%. That's right in the middle of the range it's been in since 2014 (62.3% and 63.1%). For the time being cyclical strength in the economy is offsetting the ageing of the Baby Boom generation. In other recent news, initial claims for jobless benefits fell 8,000 last week to 207,000. Continuing claims fell 13,000 to 1.65 million. These figures also support the case for a re-acceleration of job growth very soon.

Employment Report *All Data Seasonally Adjusted*	Sep-18	Aug-18	Jul-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**3.7**	3.9	3.9	3.8	3.9	4.0
Civilian Employment (monthly change in thousands)	**420**	-423	389	129	131	111
Nonfarm Payrolls (monthly change in thousands)	**134**	270	165	190	203	211
Construction	**23**	26	19	23	20	26
Manufacturing	**18**	5	22	15	20	23
Retail Trade	**-20**	12	2	-2	-4	5
Finance, Insurance and Real Estate	**13**	12	3	9	9	10
Professional and Business Services	**54**	65	39	53	52	47
Education and Health Services	**18**	58	36	37	43	38
Leisure and Hospitality	**-17**	21	13	6	16	25
Government	**13**	16	28	19	14	6
Avg. Hourly Earnings: Total Private*	**0.3%**	0.3%	0.3%	3.8%	3.3%	2.8%
Avg. Weekly Hours: Total Private	**34.5**	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	**0.1%**	0.3%	-0.2%	0.7%	1.8%	2.6%

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

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.