

September Employment Report

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

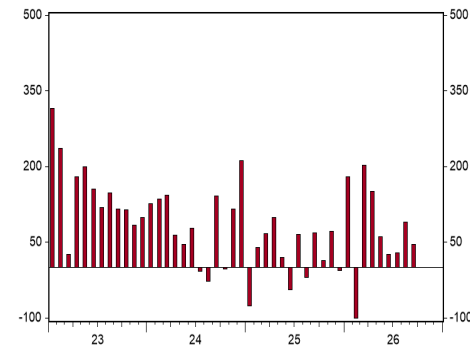
- Nonfarm payrolls increased 29,000 in September, lagging the consensus expected gain of 90,000. Payroll gains for July and August were revised lower by a total of 60,000, resulting in a net loss, including revisions, of 31,000.
- Private sector payrolls rose 46,000 in September but were revised down by 81,000 in prior months. The largest movers in September were in healthcare and social assistance (+23,000), construction (+11,000), and information (-10,000). Manufacturing rose 9,000 while government declined 17,000.
- The unemployment rate ticked up to 4.2% in September from 4.1% in August.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in September and are up 3.0% versus a year ago. Aggregate hours were unchanged in September but are up 1.1% from a year ago.

Implications: Soft headlines on the job market, but the details remain hearty, suggesting further job growth ahead. Nonfarm payrolls rose only 29,000 in September, less than the forecast from any Economics Group on Bloomberg. Meanwhile, payrolls were revised down a combined 60,000 for July/August, resulting in a net loss of 31,000. In addition, average hourly earnings rose a tepid 0.1% in September and are up a modest 3.0% from a year ago, lagging consumer price inflation. Combined, these figures suggest the Federal Reserve will not raise short-term interest rates later this month, punting the issue to December. However, there are reasons to believe the job market is still healthy. Civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 406,000 in September. And although the unemployment rate ticked up to 4.2% in September from a prior 4.1%, it was really a rounding issue, with the precise rate barely budging to 4.175% from a prior 4.141%. Notably, the unemployment rate for workers without high school degrees is down to 4.3%, tying the lowest level on record (going back to 1992). One other positive piece of news is that the labor force participation rate rose to 61.8% from 61.6%, as the labor force (people who are either working or looking for work) expanded by 485,000.

In the past year, private payrolls are up 59,000 per month and we think today's data are overall consistent with that trend, defying fears of an AI-related job apocalypse. Manufacturing and construction have significantly improved in 2026, likely related to the buildout of data centers across the country. Combined, these two sectors added 20,000 to payrolls in September and are up 164,000 so far this year. One sector that has defied the upward trend in jobs is government, where payrolls declined 17,000 in September and are down 216,000 in the past year, with (on net) all of that decline coming from the federal government. Since January 2025, federal payrolls are down 328,000. Long-term, we think a shrinking government will mean more jobs in the private sector.

Change in Total Private Payrolls

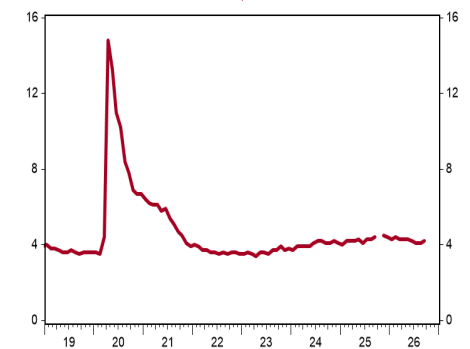
SA, Thous



Source: Bureau of Labor Statistics/Haver Analytics

Civilian Unemployment Rate: 16 yr +

SA, %



Source: Bureau of Labor Statistics/Haver Analytics

Employment Report All Data Seasonally Adjusted	Sep-26	Aug-26	Jul-26	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.2	4.1	4.1	4.1	4.2	N/A
Civilian Employment (monthly change in thousands)	406	569	-87	296	51	N/A
Nonfarm Payrolls (monthly change in thousands)	29	133	-10	51	66	41
Construction	11	16	18	15	9	9
Manufacturing	9	15	20	15	9	3
Retail Trade	6	-5	6	2	7	2
Finance, Insurance and Real Estate	-7	-9	-10	-9	-8	-9
Professional and Business Services	-9	-5	-6	-7	7	10
Education and Health Services	20	38	14	24	36	43
Leisure and Hospitality	10	37	-38	3	-2	5
Government	-17	44	-38	-4	-1	-18
Avg. Hourly Earnings: Total Private*	0.1%	0.3%	0.1%	2.4%	2.5%	3.0%
Avg. Weekly Hours: Total Private	34.4	34.4	34.3	34.4	34.3	34.3
Index of Aggregate Weekly Hours: Total Private*	0.0%	0.4%	0.0%	1.7%	1.7%	1.1%

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