A Tight But Cooling Labor Market

Hiring continued to slow in September with 136K new jobs, but upward revisions and a drop in the jobless rate to a 50-year low suggest the labor market is not falling off the rails. Wage growth remains range-bound.

Could Have Been Worse

Signs that the economy is losing momentum beyond the factory sector are mounting, but the labor market is not falling off the rails. Employers added 136K new jobs in September, which was below market expectations but strong relative to the dismal readings on hiring in both ISM reports earlier this week. In addition, prior months’ hiring was revised up a net 45K jobs. Nevertheless, September’s job figures add further evidence that the trend in hiring continues to slow. We expect private sector job growth to remain on a downward trend in the coming months. Other labor market indicators show no signs of demand improving. In addition to the multi-year lows in each ISM employment index this week, hiring plans and job openings have rolled over. Also, while the steady level of jobless claims (like today’s jobs number) suggests that the labor market is hardly collapsing, it is only part of the net hiring equation.

As the trade war rages on, hiring in the manufacturing sector has continued to weaken (-2K). That does not reflect the GM strike, which started after the survey week. Services hiring was buoyed by a 22K jump in government hiring (only 1K of which was attributable to the Census). Private services hiring was mixed, however, and continued to show that the breadth of job growth has narrowed sharply over the past year.

Even with a slower pace of hiring in recent months, the labor market remains tight. The unemployment rate fell to a 50-year low of 3.5%. The drop was driven by a surge in the household measure of employment, rather than an exodus of job seekers from the labor force. The best BLS measure of under-employment, the U6, fell to 6.9%, only a tick above the lowest reading in the 25-year history of the series.

Average hourly earnings stalled in September despite signs of a still-tight labor market, but the flat reading comes on the heels of last month’s above-trend print. Through the noise, it looks like wage growth remains stuck in its recent range. With demand for labor softening and many companies contending with higher input costs as the trade war lingers and broadens, we do not expect to see any meaningful strengthening in wage growth in the coming months. Along with slower hiring, income growth is likely to moderate as a result and contribute to slower consumer spending.

Add the Labor Market to the FOMC’s Growing List of Concerns

In recent years, inflation had been the weak point of the Fed’s dual mandate, remaining soft as the labor market consistently tightened. While inflation has firmed somewhat more recently, the cooling in the labor market suggests the FOMC is likely to maintain its easing bias. Another rate cut before year-end looks increasingly likely, with the odds rapidly rising that it will come as soon as the FOMC’s next meeting on October 30.

Source: U.S. Department of Labor and Wells Fargo Securities