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Post-summer rebound

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- Nonfarm payrolls rebounded in September after a summer of slower than average monthly growth, much like in 2023. Jobs growth most notably accelerated in industries other than government, health care, construction, and leisure and hospitality.
- The unemployment rate fell to 4.1% in September, with all major age and education subgroups experiencing a decline. In broad terms, the labor market appears to be normalizing and the slack that does exist is largely being felt by older and younger workers, evidenced by growth in the median number of weeks unemployed. Prime-age workers (25-54) have been faring well in the labor market.
- Despite the hiring rate having fallen well below pre-pandemic levels, the job finding rate for job losers and leavers is trending upward. This indicates that a growing percent of these workers are finding jobs within the same month.

Rebounding jobs growth

Total nonfarm employment increased by 254,000 in September, well above consensus forecasts. Jobs growth continued to be strong in the “big four” industries (health care, government, construction, and leisure and hospitality) and it accelerated in “other” industries after consecutive months of little to no growth (Chart 1). The services sector drove growth in the “other” industries, with professional and business services adding 17,000 jobs and retail trade adding 16,000 jobs.

Recent history suggests that September’s growth will be revised down next month, but it will still likely end up at or above the pre-pandemic average. The upward revision to July and August further supports that the jobs market is strong and relatively stable.

Chart 1: Employment growth rebounded in September after weak growth during the summer months

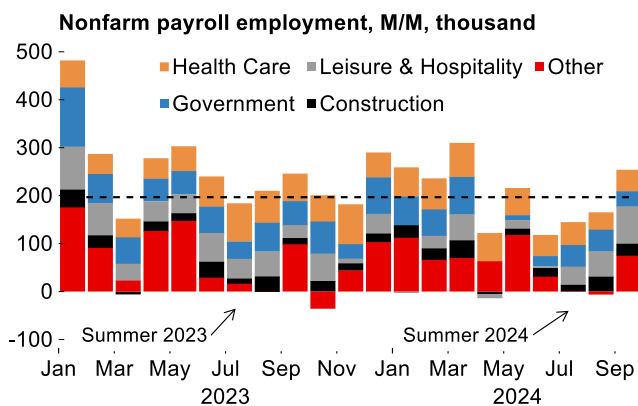
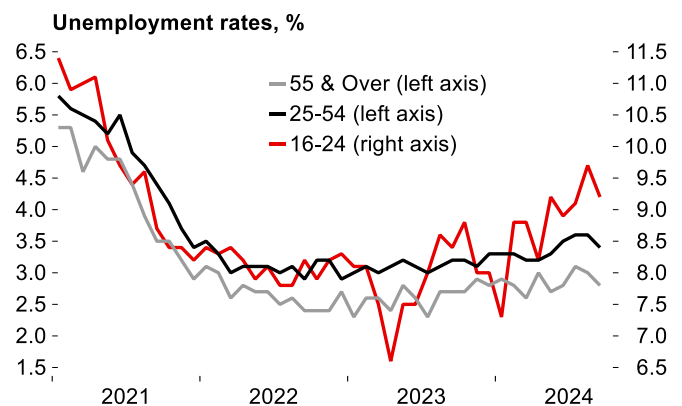


Chart 2: The unemployment rate fell across all age groups, with the drop in prime-age workers being the most significant



September marks a significant turnaround in the establishment survey. Jobs growth was notably weak over the summer, a big factor that influenced the Fed's unusually large rate cut decision at the last FOMC meeting, and slower than average growth was expected to continue into Q4. As of right now, it's not entirely clear why growth rebounded so strongly, but perhaps coincidentally, it mirrors what happened around this exact time last year. In 2023, jobs growth was similarly weak during the summer and there was a subsequent recovery in September.

Seasonality may have something to do with it, as there was a larger than average increase in both men and women that were employed but not at work due to vacation or personal days in early summer 2024. Practically, this can lead to delayed hiring, but a similar outsized growth in workers on vacation did not occur during last year's summer months. As of now, there is little evidence to suggest that methodological issues were the primary cause of prior weak growth, as opposed to a genuine slowdown in hiring. Nevertheless, September's acceleration in jobs should be taken as a sign that the labor market is indeed strong.

This is further supported in the household survey, where the unemployment rate fell to 4.1% in September, down from 4.2% last month. The drop in unemployment was broad based, falling for younger, prime-age, and older workers, as well as for those with a bachelor's degree and higher and for those with a high school diploma or less (Chart 2). Both permanent and temporary layoffs remain low by historical standards.

Heading into Q4 and the next FOMC meeting in November, we can expect a certain degree of volatility and even uncertainty. The destructive impact of Hurricane Helene across hundreds of miles will almost certainly be reflected in next month's jobs report. Parsing out these effects and getting an accurate gauge of labor market health will be difficult once the October numbers are released. On this alone, the Fed may avoid making any rash decisions. A 25bps rate cut in November is still likely the base scenario.

Less slack in prime-age workforce

The hiring and quits rate both remain below their respective pre-pandemic levels, indicating that there does exist some slack in the labor market. The vacancy to unemployed ratio has also fallen to 2019 levels and slightly below that when excluding noncyclical government and health care. This slack is most evident in the JOLTS survey, but from the perspective of the CPS household survey, it is less apparent. Shown in Chart 3, the job finding rate of job losers and leavers is trending upward, indicating that over 40% of job losers and job leavers are able to find work within the same month.

Chart 3: The rate at which job losers and leavers find work again is trending upward

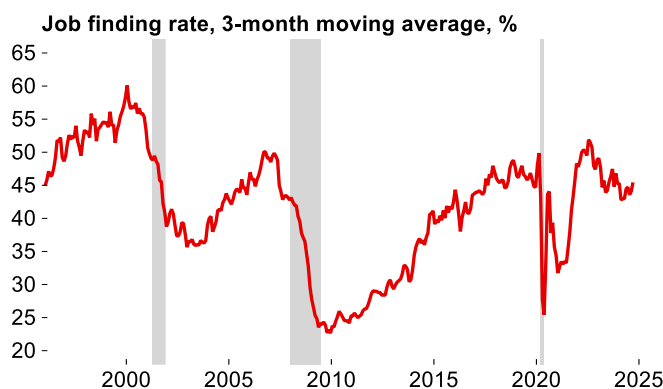
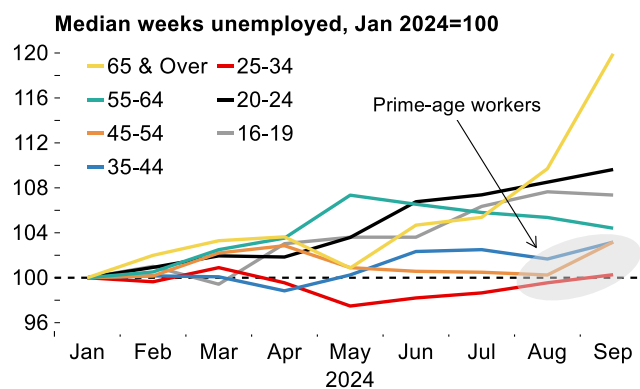


Chart 4: Prime-age workers have been able to stay out of unemployment better than other age groups



This is a slight contrast to the weakness presented in JOLTS hiring rates, but it is consistent with the low levels of permanent job losers that we see in the calculation of the unemployment rate. And upon further breakdown of labor market slack from the household survey, we see that it is largely felt by younger and older workers, while prime-age workers are faring well.

Shown in Chart 4, the median number of weeks unemployed has risen steadily since the start of 2024 for those 55 and older and for those 16-24 years old. In September, there was a sharp rise for those above retirement age (65 and older). For workers aged 25-34, there has been virtually no growth in median weeks unemployed, and only a slight increase (relative to the other age groups) for those 35-44 and 45-54. Prime-age workers, which make up the largest share of the labor force, have not been staying unemployed for very long in today's labor market, a strong indication that the labor market is more robust than what headline figures may suggest.

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