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TRENDMACRO LIVE!

On the September Jobs Report

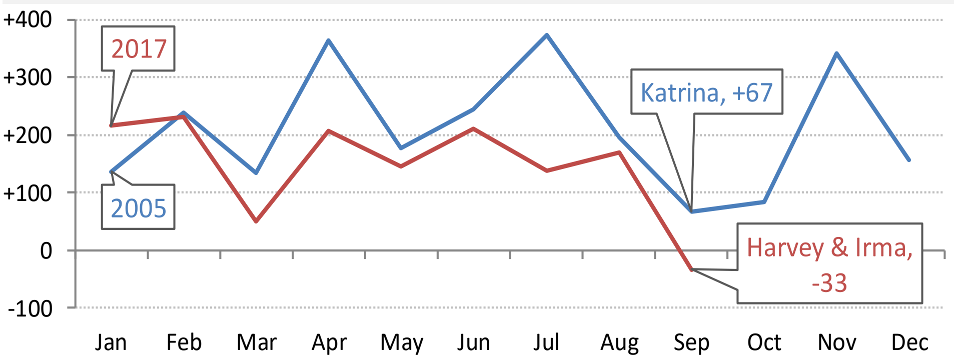
Friday, October 6, 2017

Donald Luskin

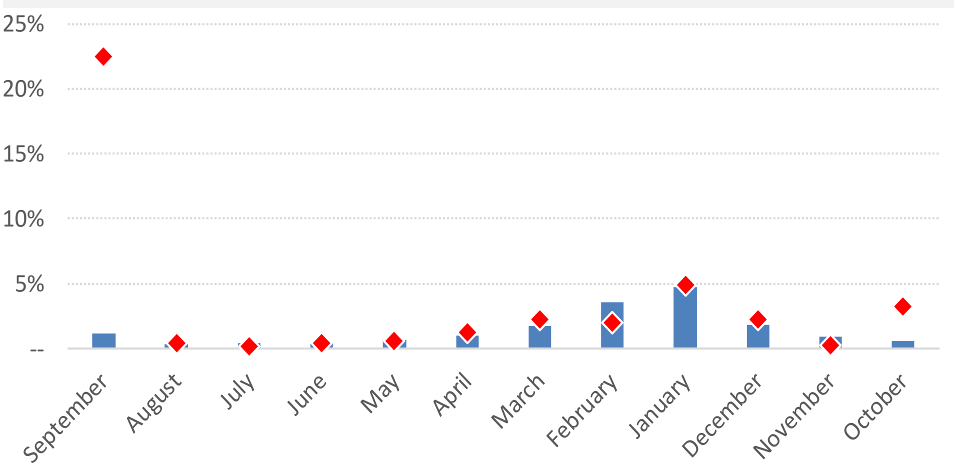
Fake news times two – hurricanes suppressed employment, and made data collection difficult.

Though [this morning's September Employment Situation report], with a net loss of 33,000 payrolls, was a big miss versus an already low consensus for a gain of 80,000 – and all the more so given net downward revisions for the previous two months – *it really shouldn't be a surprise that there was a surprise. It's all about Harvey and Irma.* The charts below say it all. Or to quote the droll understatement of the Bureau of Labor Statistics, "Our analysis suggests that the net effect of these hurricanes was to reduce the estimate of total nonfarm payroll employment for September."

Change in non-farm payrolls Thousands, month over month



Share of unemployment due to weather ◆ Last 12 mos ■ Avg from 1976



Source: BLS Current Population Survey, TrendMacro calculations

Update to strategic view

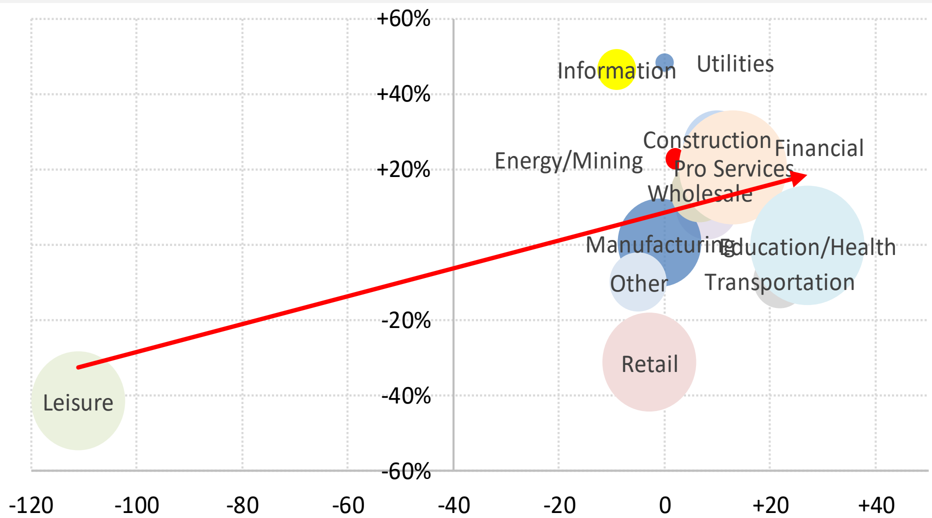
US MACRO, US FED: A big payroll miss versus an already low consensus, on top of downward revisions. There is nothing here that suggests any risk to the economy. This report is doubly scrambled – not only by the actual effects of hurricanes on Texas and Florida, but by the difficulty of collecting accurate data from affected counties. Other contemporaneous indicators of the labor market pointed to net gains of 150,000. The large reported gain in average hourly earnings is mostly the result of the large drop in leisure payrolls – which swamped gains in every other sector. This large sector is the one with the lowest average wages, so losses here raise the overall average. The FOMC has already said it would ignore noisy data arising from the hurricanes, so none of this changes the outlook for a likely rate hike in December.

[Strategy dashboard]

The statistics reported this morning do not include Puerto Rico or the US Virgin Islands. Still, there were 11.1 million payrolls in directly affected counties of Texas and Florida. Beyond their powerful temporary effect on the labor market, the hurricanes also made the collection of labor market data difficult – so we don't even have a good read on their effect.

- *Just to be perfectly clear, we don't think for one second that this morning's statistics say anything ominous about the state of the economy. And they are out of step with all the other contemporaneous labor market indicators – such as unemployment claims, ADP payrolls, Challenger layoffs, and so on – which, together, imply a net gain of about 150,000 payrolls.*
- To see how scrambled the data are this month, consider the Current Population Survey – the so-called "household survey" – that is used to calculate unemployment. It claims that 575,000 persons entered the labor force in September, more than all of whom were able to be employed. That's why the unemployment rate fell to 4.22% from 4.44% in August (see "Data Insights: Jobs" October 6, 2017). *Does anyone think that really happened?*
- Average hourly earnings appeared to rise by a strong 0.5% in September, but that is doubly illusory. August's gains were revised down by 0.3% – and be that as it may, September's earnings gains were largely because of the loss of 111,000 payrolls in the leisure sector – which swamped payroll gains in every other sector. Leisure is a very large sector, and the one with, on average, the lowest wages. Take lots of those low wage earners out, and the average of the remaining wages appears to rise (please see the chart below).

Hor: **net payroll change** Vert: **earnings vs average** Size: **total payrolls**



Source: BLS, TrendMacro calculations

- At the same time, it's likely that wages also rose because of pressure from increased overtime, and other demand effects exerted on employers in the disaster counties, trying to cope with the effects of the storms.

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[About us]

Recommended Reading

The Culture of Death—and of Disdain
Peggy Noonan
Wall Street Journal
October 6, 2017

[Reading home]

- *This earnings data, all considered, shouldn't make any difference one way or the other to the Fed's likely decision to hike the funds rate at the December FOMC. Besides*, *the September FOMC statement* *was already perfectly clear that the Fed intends to ignore transitory effects from the storms* (see "On the September FOMC" September 20, 2017).
- While the Current Employment Statistics survey – the so-called "payroll survey" – showed a net loss of 33,000 payrolls, the household survey showed a net *gain* of 575,000 jobs.

Bottom line

A big payroll miss versus an already low consensus, on top of downward revisions. There is nothing here that suggests any risk to the economy. This report is doubly scrambled – not only by the actual effects of hurricanes on Texas and Florida, but by the difficulty of collecting accurate data from affected counties. Other contemporaneous indicators of the labor market pointed to net gains of 150,000. The large reported gain in average hourly earnings is mostly the result of the large drop in leisure payrolls – which swamped gains in every other sector. This large sector is the one with the lowest average wages, so losses here raise the overall average. The FOMC has already said it would ignore noisy data arising from the hurricanes, so none of this changes the outlook for a likely rate hike in December.