Economic Update

October 4, 2024

Blowout Jobs Report Puts Recession Concerns on Ice for Now, Supports 25 BPS Cut in Fed Funds Rate in November

- **The September jobs report was the best since March, with job growth of 254,000 and the unemployment rate down to 4.1%, from 4.3% in July.**
- **There were upward revisions to job growth in July and August.**
- **Average hourly earnings rose a solid 0.4% in September from August, and were up 4.0% on a year-ago basis.**
- **With the strong labor market the U.S. economy will continue to expand in late 2024 and early 2025.**
- **The strong jobs report supports a 25 basis-point cut in the fed funds rate on November 7, as opposed to a 50 basis-point cut.**

The U.S. economy added a huge 254,000 jobs in September, according to a survey of employers from the Bureau of Labor Statistics, more than 100,000 more than the consensus expectation of 140,000. This was the strongest month for job growth since March. In addition, there was an upward revision to job growth in August, to 159,000 from 142,000, and a much larger upward revision in July, to 144,000 from 89,000. Over the past three months U.S. job growth has averaged a strong 186,000, somewhat above potential long-term potential job growth of around 160,000. The private sector added 223,000 jobs in September, while government employment rose by 31,000.

The good news wasn't just in the employer survey. The unemployment rate fell to 4.1% in September from 4.2% in August and 4.3% in July, back to where it was in June. And the unemployment rate was 4.051% in September before rounding, so very close to 4.0%; it was 4.221% in August. The unemployment rate is up from a decades-long low of 3.4% in 2023, so the job market is somewhat softer than it was last year, but is still historically strong. Employment in a survey of households (different from the survey of employers) jumped by a huge 430,000 in September, the best month since March. Over the past three months job growth as measured in the household survey has averaged 222,000. Employment tends to be more volatile in the household survey compared to the employer survey.

At the same time the labor force—the number of people working or looking for work—increased by a solid 150,000 in September. The labor force participation rate, which is the share of adults in the labor force, held steady at 62.7% for a third straight month. The labor force participation rate has been in a narrow range between 62.5% and 62.8% since March 2023, below the 63%+ range before the pandemic; the job market is structurally tighter post-pandemic than it was pre-pandemic.

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Average hourly earnings rose a solid 0.4% over the month, and were up 4.0% in September from a year earlier. This is a slight acceleration from wage growth of 3.9% in September (revised up from 3.8%) and 3.6% in August (unrevised). The average workweek fell by one-tenth of an hour to 34.2 hours. With more jobs, higher wages, but a shorter workweek, labor market earnings rose 0.2% in September from August. This should outpace expected inflation of 0.1% in September, with the BLS set to release the CPI report on Thursday, October 10.

Goods-producing industries added 21,000 jobs in September, with construction employment up by 25,000 but manufacturing employment down by 7,000. The Boeing strike (more than 30,000 workers out) was not included in the September numbers. Private services-providing industries added 202,000 jobs, with big gains in leisure and hospitality (up 78,000) and education and healthcare (up 72,000). There were also solid increases in employment in professional and business services (up 17,000) and retail trade (up 16,000), but employment in transportation and warehousing fell by 9,000. The diffusion index, which measures the breadth of job growth across industries, was at 57.6 in September, well above the 50 mark that indicates equal numbers of industries are adding and losing job. This was the highest reading for the diffusion index since January, and it was up from 51.8 in August.

This morning's jobs report was easily the best since March, with strong job and wage gains, upward revisions to job growth in July and August, a 0.2 percentage point drop in the unemployment rate (and even better before rounding), and solid labor force growth. With the labor market holding up consumers will continue to spend going forward, supporting continued economic expansion in late 2024 and early 2025. The likelihood of recession has receded with the excellent September numbers. There will be one more jobs report before the election, for October, to be released on Friday, November 1.

The very strong jobs report means that the Federal Open Market Committee is likely to cut the federal funds rate by 25 basis points, rather than 50 basis points, when it meets on Thursday, November 7. The fed funds futures market is now pricing in a 92% probability of a 25 basis-point cut on the 7th and an 8% probability of a 50 basis-point cut; those numbers were 47% and 53%, respectively, a week ago. One inflation concern from the Federal Reserve's perspective is that wage growth may be heating back up. But that's not enough to prevent the FOMC from cutting the fed funds rate again in November, after a 50 basis-point cut on September 18. Even with a 25 basis-point cut in November the fed funds rate will still be contractionary, weighing on economic growth, just not as contractionary as it was before the central bank started to ease in mid-September. Fed Chair Jerome Powell has made it clear that he wants to cut the fed funds rate again in the near term, to prevent the labor market from deteriorating further.

The market reaction was strongly positive. The S&P 500 opened 0.7% higher this morning, although it is down somewhat since then. The yield on the 10-year Treasury yield is up by 9 basis points to 3.95%, with the yield on the 3-month T-bill up 3 basis points to 4.62%, on expectations for less near-term FOMC easing. The U.S. dollar has strengthened 0.5% against a basket of currencies. A barrel of West Texas Intermediate crude oil is up 0.8% this morning to $74.23, and has risen from below $70 on Tuesday, on the strong jobs report and concern about a potential war between Israel and Iran.

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