Economic Update

November 1, 2024

Very Weak Job Growth in October as Hurricanes, Boeing Strike Are Drags; Employment Should Rebound in November

- **Job growth was just 12,000 in October, the smallest gain in almost four years. Hurricanes Helene and Milton and the Boeing strike distorted the numbers.**
- **The unemployment rate held steady at 4.1%, although there were hurricane impacts in the underlying numbers.**
- **Wage growth remained solid in October.**
- **The FOMC will discount the October jobs report because of the one-time distortions and will cut the federal funds rate by 25 basis points next week.**
- **Although it is difficult to discern much from the October jobs report, the labor market appears to be solid in the fall of 2024, although it is not quite as strong as it was in 2023.**
- **Market reaction was muted giving the caveats surrounding the report.**

The U.S. economy added just 12,000 jobs in October according to a survey of employers, the weakest month for the labor market since December 2020. Hurricanes Helene and Milton weighed on job growth in October, although the Bureau of Labor Statistics did not try to quantify the impacts. In addition, the Boeing strike was a big negative: employment in transportation manufacturing fell by 44,000. Employment should bounce back in November. The private sector lost 28,000 jobs with the hurricanes and the strike, while government employment rose by 40,000 over the month.

Job growth in September was revised somewhat lower to 223,000 from 254,000, while job growth in August was revised much lower to 78,000 from 159,000. Job growth in the three months through October averaged 104,000, down from 148,000 in September.

The unemployment rate was unchanged at 4.1% in October despite the storms and the strike. Employment in a survey of households (different from the survey of employers) fell by 378,000 over the month, the first drop in this measure since May. Employment tends to be more volatile in the household number relative to the employer number. While employment dropped in the household survey, the labor force (the number of people working or looking for work) also fell by 220,000, leaving the unemployment rate unchanged. The labor force participation rate—the share of adults working or looking for work—fell by 0.1 percentage point over the month to 62.7%.

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The household survey does include data on workers who report that they were unemployed over the month for weather-related reasons. That number is not seasonally adjusted by the BLS, but was 512,000 in October 2024, up from an average of 31,000 in the previous five Octobers (2019-2023), suggesting that there were large hurricane-related job losses.

The average workweek was unchanged at 34.3 hours, with average hourly earnings up 0.4% over the month, despite the loss of well-paying Boeing jobs. There were downward revisions to wage growth in August (to 0.4% from 0.5%) and September (to 0.3% from 0.4%). Over the past year average hourly earnings have increased 4.0%, well above the pace of inflation. Year-ago wage growth was 3.9% in August, but was close to 6% in early 2022, so wage growth is slowing as the labor market continues to normalize post-pandemic. With employment essentially flat, the workweek unchanged, and wages up, labor market earnings rose by 0.4% in October, which should outpace inflation (consumer price index to be released October 13).

Private goods-producing industries lost 37,000 jobs in October, including job losses of 46,000 in manufacturing, mostly due to the Boeing strike. Construction employment rose by 8,000 in October; the industry continues to add jobs, even as high interest rates remain a drag. Private services-providing industries added just 9,000 jobs over the month, the smallest increase in almost four years. Education and health services hiring held up, with an increase of 57,000. But there was a large drop in employment in professional and business services of 47,000; all of that decline came from temporary help services, with losses of 48,500, more than double the industry's pace of job loss in recent months. It's likely that much of that came from workers temporarily displaced by the hurricane. Even with the softness in job growth the diffusion index, which measures the breadth of job growth across industries, was comfortably above the 50 level that indicates equal numbers of private-sector industries gaining and losing jobs.

Due to distortions from Helene and Milton and the Boeing strike it is difficult to tell much of anything about the labor market from the October jobs report. Initial unemployment insurance claims, which spiked much higher in early October, especially in North Carolina and Florida, have settled down since then, suggesting that the storms' impacts on the job market will be temporary. Except for the most damaging storms, like Katrina and Sandy, hurricanes have little impact on jobs beyond a month, and there should be a rebound in employment growth in November. The Boeing strike also weighed on job growth in October, and manufacturing employment should bounce back once the strike is settled and the machinists return to the job.

But outside of the storms and Boeing, the evidence indicates that the labor market is still in solid shape, although not quite as strong as it was last year. Job growth in the first nine months of this year averaged almost 190,000 a month, down from 250,000 per month in 2023. But this is still somewhat above what the economy can support over the long run given labor force growth. The unemployment rate has increased somewhat in 2024 to 4.1% in September—it hit 3.4% for a couple of months last year, the lower rate in more than 50 years—but it is still slightly below the rate that the Federal Reserve views as consistent with maximum employment.

Because of these one-off events the Federal Open Market Committee will likely discount the October jobs report. With inflation continuing to gradually return to the FOMC's 2% objective, PNC expects the committee to cut the federal funds rate by 25 basis points when it meets next Thursday, taking the rate to a range of 4.50% to 4.75%. PNC then expects an additional 25 basis point rate cut at the FOMC's subsequent meeting, in mid-December, with further rate cuts in the first half of 2025. The fed funds futures market is pricing in a 98% probability of 25 basis point rate cut at next week's FOMC meeting, up from 95% yesterday and a week ago.

The S&P 500 opened higher this morning and has since traded flat, and is up 0.6% shortly before the close. The yield on the 10-year Treasury note plunged on the headline number, but then quickly moved higher and is at 4.38% by late afternoon, up from 4.29% yesterday. The yield on the 3-month Treasury bill is down by 2 basis points today to 4.53%. The dollar has strengthened slightly against a basket of currencies. The price of a barrel of West Texas Intermediate crude oil is up slightly to around $69.50.

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