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Notes from the Economics Desk

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November Employment Preview

Establishment Survey	SanCap Est.	Consensus		Oct	Sep
Total Payrolls (1,000's)	+225	+218		+12	+223
Private Payrolls (1,000's)	+190	+203		-28	+192
Avg. Workweek (Hours)		34.3		34.3	34.3
Avg. Hourly Earnings (% chg)	+0.3	+0.3		+0.4	+0.3
Aggregate Hours Index, Private (% chg)				0.0	+0.1
Aggregate Hours Index, Mfg. (% chg)				-0.6	-0.2
Household Survey					
Unemployment Rate (%)	4.1	4.1		4.1	4.1
Employment (1,000's)				-368	+430
Labor Force (1,000's)				-220	+150

The October employment report was sharply impacted by temporary disruptions. The Boeing strike subtracted 33,000 from the manufacturing tally, while Hurricanes Helene and Milton hit jobs in the southeast. It is impossible to precisely gauge the magnitude of hurricane effects in the October payroll tally, but retail, leisure, and temps, the three sectors with the highest percentage of hourly workers, all posted declines (most workers on salaries would be paid even when their businesses are disrupted and thus would remain included in the jobs count, whereas hourly workers who failed to log a shift during the survey period would drop off).

The Boeing strike (as well as a smaller machinist strike at Textron) was settled well ahead of the November survey period, though the continuing claims readings over the last month suggest that the ripple effects of the strike continue to reverberate. Thus, I expect most, but not quite all, of the manufacturing jobs lost due to the

strike in October to be recovered in November. Similarly, I would imagine that the areas impacted by Hurricanes Helene and Milton were substantially but not fully recovered by mid-November. Thus, I look for payrolls to bounce back sharply in November, perhaps to around a 225K gain.

In my view, the best way to assess the jobs figures tomorrow will be to compare the October-November average against prior trends. To offer a benchmark, payrolls grew by 141K per month from June through September, while private sector jobs advanced by 106K per month. I would look for the October-November averages to be somewhat lower, both because recovery from the October distortions may not be quite 100% and also because I believe that the underlying path of job growth continues to moderate as labor demand cools after two years of overheating. Assuming no revisions to October, my November projections imply two-month averages of about 120K per month for total payrolls and well under 100K per month for private jobs.

Given all of the noise in the labor market data over the past few months, Fed officials are not likely to view the last two months' readings at face value. A number of policymakers have spoken over the past few weeks, and there is near unanimity that the labor market is cooling but healthy. Barring an extreme outlier payroll result (and perhaps even then), tomorrow's data are unlikely to significantly impact the FOMC's decision on December 18. Given that it appears the Committee is leaning toward another rate cut this month, the one scenario that could alter their thinking might be a decline in the unemployment rate to 4.0% or lower.

Turning to indicators of the underlying state of the labor market, layoffs remain low. Initial unemployment claims have returned to their spring levels of 215K to 225K. JOLTS layoffs jumped in September, finally returning to the 2018-2019 levels, but immediately slid back in October to a pace that was roughly in line with the year-to-date average and about 10% below the 2018-2019 range.

On the hiring side, as I laid out in Tuesday's JOLTS writeup, I have come to prefer the Indeed job postings tracker to the JOLTS job openings gauge, given the month-to-month gyrations in the latter. The job postings index had been steadily ebbing through June, sliding to about 12% above the pre-COVID benchmark. However, for about three months beginning in July, the Indeed index held steady, pointing to a possible stabilization in labor demand. Then, job postings dropped noticeably in October, followed by a partial rebound last month. As of the end of November, the gauge was running about 10% above the pre-COVID benchmark, signaling that the demand for workers, while cooling, is still solid. The bounce in the JOLTS job openings series in October is also consistent with that view.

Several business surveys over the past month suggest that firms have gained optimism about the economic outlook since the election. The NFIB survey of small businesses found in November that the proportion of respondents planning to hire in the next three months rose by 3 points to 18%, the highest reading in a year, while the percentage hiring or trying to hire in November ticked up by 2 points after October's reading was the lowest since January 2021. Notwithstanding these results, however, I suspect that this newfound optimism may take a while to impact the payroll data, as businesses may be slow to re-engage, waiting several more months for greater clarity on the many questions regarding government policies heading into the new year.

Adding everything up, I continue to believe that the labor market will moderate somewhat further in the short term before firming up later next year, when less restrictive monetary policy and a business-friendlier tax and regulatory landscape may begin to boost the economy.

Turning to wages, an early survey period (ending before the 15th day of the month), as was the case in October, typically argues for a smaller monthly increase. However, temporary job losses in sectors with below-average wages (the three noted above: retail, leisure, and temps) may have inflated the average pay figure for October, yielding a 0.4% monthly advance. Normally, a late survey period in November would dictate a firmer reading, but a normalization in the mix of jobs composing the average could limit the wage rise for the month to 0.3%.

Opinions differ among Fed officials regarding whether wage growth has moderated sufficiently to support an eventual return to 2% inflation. The majority of officials have taken up Chairman Powell's argument that the labor market is no longer exerting upward pressure on inflation. Some have even suggested that productivity growth may have accelerated by enough to imply that current wage growth of close to 4% is fully consistent with 2% inflation. A minority of more hawkish policymakers are not so confident, but the broader point is that marginal surprises in wage growth are not likely to have a considerable impact on the near-term policy outlook at a time when there are questions about trend productivity growth.

It seems that Hurricanes Helene and Milton had an outsized impact on the October household survey results. Over 500K workers said that they were unable to work due to the weather and another 1.4 million had their hours curtailed (in the absence of a major hurricane in October 2023, the corresponding figures were 15K and 139K, respectively). The aggregate figures were also extremely weak, with the labor force contracting by 220K and the household survey gauge of employment sliding by 368K. The net result was a backup in the unemployment rate of almost 10 basis points, though the October reading still rounded – barely -- to 4.1% (4.1453% unrounded).

I expect a bounceback in both the labor force and household employment in November. I look for the unemployment rate to hold steady at 4.1%, though the unrounded figure may inch down by a few basis points. Economists are nearly evenly split between a 4.1% vs. a 4.2% outcome, with the Bloomberg panel favoring an unchanged reading over an uptick by a 32 to 30 margin. As noted above, to the extent that the FOMC appears inclined to cut rates again later this month, officials are unlikely to care much whether the jobless rate prints 4.1% or 4.2%, but a marked downside surprise could lead some to revisit their leanings, depending on the November CPI results.

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