Employment report September 2024

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Loud sigh of relief as employment growth rebounds

- The strong September jobs report confirms labor market conditions remain healthy, characterized by slower demand absorption rather than broad-based layoffs. The above-trend 254,000 jobs gain and decline in the unemployment rate to 4.1% will bolster the view among Fed officials that there is no rush to cut interest rates. Some may even lean in favor of a pause. We continue to anticipate a "gradual" 25 basis points (bps) easing of monetary policy in early November led by Fed Chair Jerome Powell but stress that nothing will be decided until the next jobs report (released a couple of days before the Federal Open Market Committee (FOMC) meeting).
- The economy added 254,000 jobs in September, above consensus expectations for a 150,000 gain, and payrolls gains in the prior two months were revised markedly higher by a cumulative 72,000. Private sector payrolls expanded 223,000, while government payrolls rose 31,000. In the third quarter, nonfarm payrolls have expanded at an average pace of 186,000, up from 147,000 in the second quarter, but still a notable step down from the 267,000 average pace at the start of the year.
- Job growth was more broad-based last month with the diffusion index of private employment gains rebounding to 57.6% from 51.8%. Still, the health care, leisure and hospitality, and government sectors remained at the forefront of job creation and accounted for 70% of the total payrolls advance. Private services payrolls grew a solid 202,000, with jobs gains also bolstered by rebounds in professional and business services and retail payrolls. Good sector employment rose 21,000 in September as robust employment gains in construction more than offset a 7,000 decline in manufacturing payrolls.
- Encouragingly, the unemployment rate edged lower to 4.05% in September from 4.22% in August, though it remains well above its post-pandemic low of 3.4% in April 2023. The recent uptrend reflects both slower labor demand and reduced absorption of steady labor supply — with more people entering the labor force and joining the ranks of the unemployed.
- The labor force participation rate remained steady at 62.7% for a third consecutive month, slightly below its cycle high of 62.8% reached in late 2023. The participation rate for prime-age workers (those aged 25 to 54) fell slightly from 83.9% to 83.8%, though it remains close to its second highest levels since March 2001. Immigration has been a powerful catalyst in rebalancing the labor market, tempering wage growth and offsetting the structural downward pressure on labor force participation from the retirement of baby boomers.

- On the wage front, average hourly earnings were stronger than expected, rising 0.4% month over month and lifting wage growth back up to 4% year over year. However, leading indicators of wage growth, such as the quits rate, point to further moderation ahead. Importantly, given the solid uptrend in productivity growth in recent quarters, wage growth is arguably below the pace consistent with 2% inflation.
- Looking ahead, the October jobs report will be key to the Fed's next policy decision, but it will be noisy due to the impact of Hurricane Helene and the ongoing strike at Boeing. With International Longshoremen's Association dockworkers agreeing to resume work until January 15 while they continue collective bargaining with their employers, that is one less worry.
- While Fed policymakers appear on track for a 25bps rate cut in November, any notable weakening in underlying payroll growth, hours worked or the unemployment rate next month could still tip the scale in favor of another 50bps rate cut by data-dependent Fed policymakers.
- For now, we continue to anticipate the Fed will ease policy by 25bps at every meeting through June of next year. This would translate into 50bps of rate cuts by year-end and another 100bps in H1 2025, putting the federal funds rate at 3.4% in June 2025.

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