Economic commentary from the Investment Advisory Group

September job growth solid, likely not cooling enough for a Fed pivot

October 7, 2022

Michael Skordeles, AIF®
Senior U.S. Macro Strategist

Executive summary: U.S. payrolls increased in September by 263,000, roughly in-line with the consensus of 250,000. The six-month average slipped to 360,300, the slowest six-month pace since the reopening period in 2020. The unemployment rate fell to 3.5%, back down to the low of this cycle, along with a decrease in the labor force participation rate.

Conditions are cooling. The industry results were solid, albeit less than the prior trend. That said, three major industry groups lost jobs during the month, which hasn't happened since November 2020. Meanwhile, average hourly earnings grew 5.0% from a year ago, the slowest year-over-year pace in nine months, but well-above the pre-pandemic rate of 3.0%. Moreover, there was a sizable increase in temporary workers, which is unusual during this time of year.

Thus, labor market conditions remain solid, which is good for individuals. But inflationary pressures aren't fading fast enough, preventing the Federal Reserve (Fed) from relaxing its aggressive stance for now. This report likely bolsters the case for another supersized three-quarter point (0.75%) rate hike at the next Fed meeting on November 2. Ultimately, the market believes the prospects of higher interest rates increase the likelihood of a recession or, at the very least, a further slowdown in economic activity. We agree.

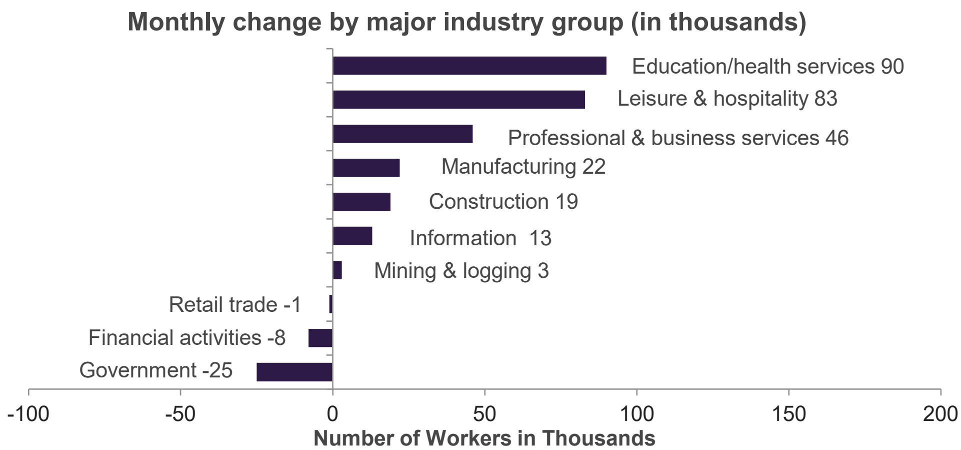
Component	September	Prior month	Six-month average	Comment
Change in payrolls	263,000	315,000	360,300	6-month average fell to the slowest pace since the reopening period in 2020. Also, modest upward revisions of 11K for July and August. Pre-pandemic 3-year average was 177K/mo.
Unemployment rate (U-3)	3.5%	3.7%	3.6%	Dipped back down to the low of this cycle.
Labor force participation rate	62.3%	62.4%	62.3%	Slipped by 0.1 in September as the labor force shrank by 57K. Still 1% below 2019 level.
Average hourly earnings (YoY)	5.0%	5.2%	5.2%	Fell to the slowest YoY pace this year. Non-supervisory stayed at 6.1% from a near-term high of 6.7% in March and remains well-above the pre-pandemic 10-year average of 2.4%.
Average weekly hours worked	34.5	34.5	34.5	It has held steady for four straight months, which is in-line with the pre-pandemic average. Manufacturing hours also held steady at 40.3.

Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics

A review of the major industry trends

Private payrolls increased by 288,000 workers, but government payrolls fell by 25,000. Service-providing industries added 244,000 positions, while goods producers hired 44,000.

Three major industry groups lost jobs during the month, which hasn't happened since November 2020



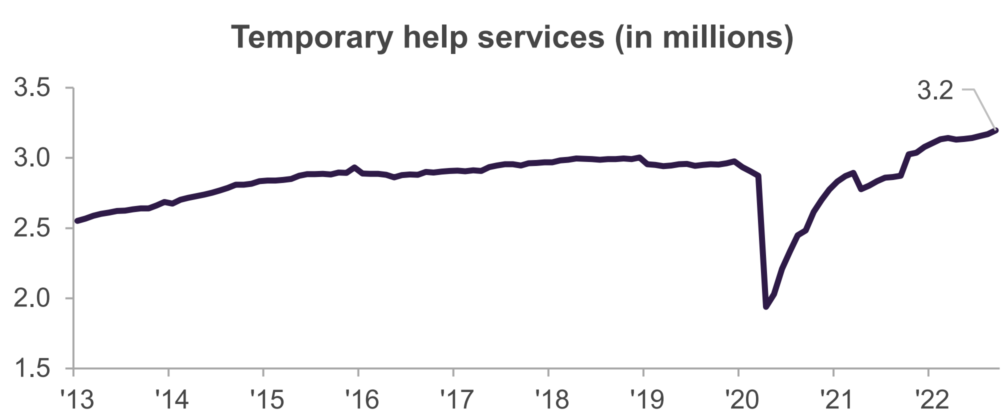
Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Within government, education was particularly weak. Local and state schools axed 28,800 positions combined in September, which was the second decline in the past four months. Meanwhile, private education added 14,000 during the month. Excluding education, government payrolls increased by 4,000 workers.

Financial activities payrolls fell by 8,000, the first decline in 15 months. It appeared to be concentrated within the insurance and banking-related segments, the latter of which has seen a sharp drop off in the mortgage business as interest rates have spiked.

Retail trade clipped 1,000 workers, though it is likely a seasonal shift as building supply & garden stores shed 6,100 positions in September.

Meanwhile, temporary help services—categorized within professional & business services—added 27,200 in September, the largest monthly increase in 2022. That is unusual during this time of year. It is also an all-time high in the number of temp workers.

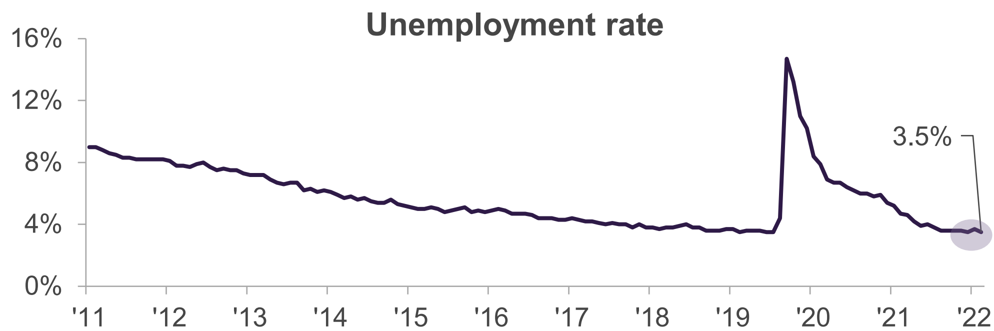


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Unemployment and labor force participation rates slip, along with wage growth

The unemployment rate fell by 0.2 to 3.5%, slipping back down to the low of this cycle. The labor force fell by 57,000, which is the fourth monthly decrease in the past six months, causing the labor force participation rate to edge down by 0.1 to 62.3%. That is a full percentage point below the 2019 level.

The unemployment rate slipped to 3.5% in September from 3.7% in August.

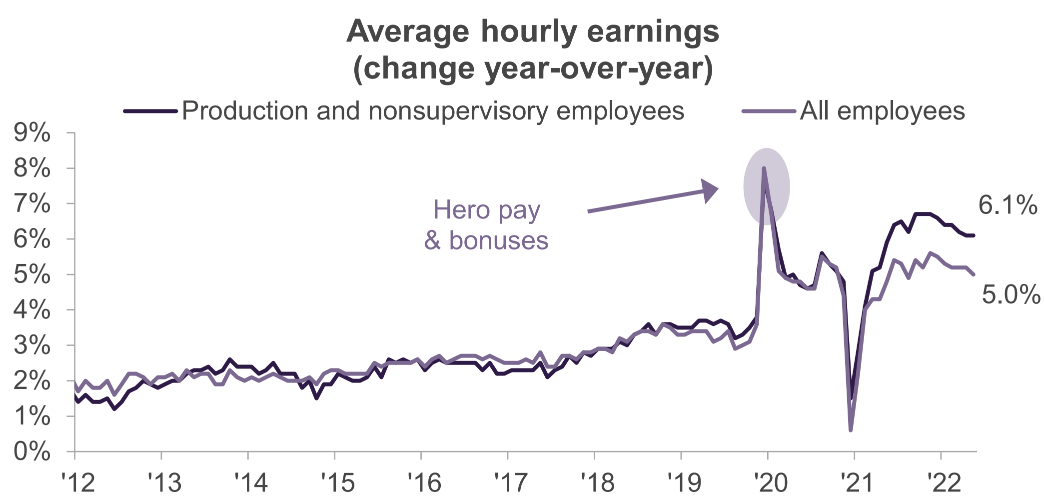


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Average hourly earnings rose 5.0% from a year ago, the slowest year-over-year pace in nine months, but well-above the pre-pandemic rate of 3.0%. The monthly pace, up 0.3%, matched the coolest rate in the past seven months.

For rank & file workers (officially known as production & nonsupervisory employees), the pace of average hourly earnings held steady in September on both a month-over-month (up 0.4%) and year-over-year basis (up 6.1%). It, too, remains significantly above its pre-pandemic 10-year average of 2.4%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic recent wage gains have been concentrated.

The pace of average hourly earnings for production & nonsupervisory employees has continued to cool since March.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Hours worked—officially known as average weekly hours worked for all employees—have also gradually declined since 2021, when they peaked at 35.0 hours in January 2021. They have held steady at 34.5 for the past four months, just above the pre-pandemic 10-year average of 34.4. Within manufacturing, hours worked and overtime hours have already returned to their respective long-term averages; hours worked fell to 40.3 in September, while overtime hours were 3.2.

Our take

Welcome back to Bizarro World, where markets twist logic in a way that transforms “good” into “bad” (for markets). In today’s episode, the labor market conditions remain solid, which is *good* for individuals insofar as more people have jobs.

The solid labor market conditions are more than simply the headline jobs number or even the drop in the unemployment rate. For instance, the aforementioned strength within temp help is corroborated by a private staffing index, which popped to 108.2 in the latest week. That’s a fresh all-time high (excluding the 2021 holiday season when it hit 108.7). For perspective, the pre-pandemic all-time high for the index was 105.8 set in December 2014 (also during the holiday season). Moreover, weekly initial jobless claims continue to hover near a 50-year low, while the quit rate for food services workers hit a new 20-year high.

Thus, this report is *bad* for markets since solid economic figures nudge prices higher (aka inflation), keeping the Fed in a box. Given inflationary pressures aren’t fading fast enough, the Fed can’t relax its aggressive stance against inflation just yet. This report likely bolsters the case for another supersized three-quarter point (0.75%) rate hike at the next Fed meeting on November 2, and dashes the hopes of a near-term pivot.

Ultimately for markets, the prospects of higher interest rates increase the likelihood of a recession or at the very least a further slowdown in economic activity. We agree.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

CN2022- 4985712.1 10-2023