Economic commentary from the Investment Advisory Group

Nothing scary about strong October job gains, though continued educational losses are a little spooky

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Executive summary: U.S. payrolls in October jumped by 531,000, beating the consensus expectation of 450,000. That was paired with sizable upward revisions to the prior two months. Meanwhile, the unemployment rate slipped to 4.6% from 4.8%.

Some of October's strength is the result of pandemic-support programs expiring in September, pushing more workers back into the labor force. More importantly, there are many signs of strength, with solid hiring across most industries. Leisure & hospitality led the way. Temp hiring, which tends to lead to permanent jobs, hit an 8-month high. Additionally, wage growth continues to surge for rank and file employees, which leads to more economic growth. Still, local and state schools shed 65,000 educational jobs in October. That's the third straight month public schools have cut teachers, which seems out-of-step with other data.

Looking ahead, we expect more month-to-month swings as workers hold out for higher wages and employers balk. Ultimately, this report supports our view the U.S. economy has reaccelerated following third quarter softness due to the delta variant, which punched growth. Furthermore, we expect above-trend economic growth heading into 2022.

Component	October	Prior month	Six-month average	Comment
Change in payrolls	531,000	312,000	665,500	October had the largest gain since July's 1.1 million. Big upward revisions added 235K to the prior two months.
Unemployment rate (U-3)	4.6%	4.8%	5.3%	The labor force added 104K. Still, there are 4.2 million fewer workers compared to the pre-pandemic level.
Labor force participation rate	61.6%	61.6%	61.6%	The number of people who said they were unable to work because their employer closed or lost business due to the pandemic was 3.8M.
Average hourly earnings (YoY)	4.9%	4.6%	3.9%	Another sizable rise in Oct. Non-supervisory jumped 5.8% YoY. It's running well above the average of 3.3% during 2019.
Average weekly hours worked	34.7	34.8	34.7	Down in October due to manufacturing, which has been greatly impacted by supply chain bottlenecks.

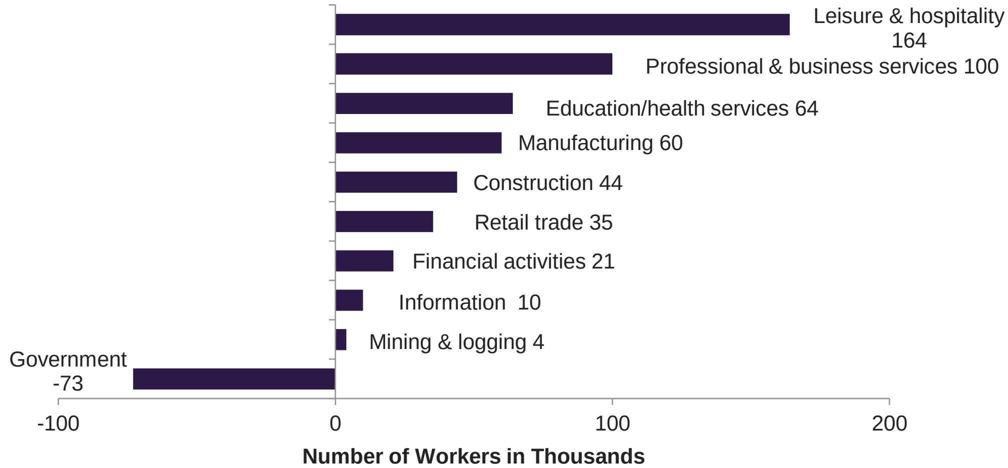
Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics.

A review of the major industry trends

Private payrolls increased by 604,000 workers in October, but government payrolls dropped by 73,000. Service-providing industries added 496,000 positions, while goods producers hired 108,000 workers. Leisure & hospitality and educational jobs remained the hotspots, though the two continued to move in opposite directions.

One major industry group, government, lost jobs during October.

Monthly change by major industry group (in thousands)



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

The leisure & hospitality industry group rose sharply in October, adding 164,000 jobs, nearly double the upwardly revised 88,000 in September. The bulk were at restaurants and bars, which added 142,600 workers. Also, August was revised to a modest gain of 7,500 rather than cutting 24,700 positions. Still, overall leisure & hospitality remains 1.4 million jobs below pre-pandemic levels.

We remain perplexed by the trend of educational positions. Local and state schools shed 43,000 and 22,000, respectively, or 65,000 total in October. That's the third straight month public schools have cut teachers, which seems out-of-step with other data. Moreover, nearly all U.S. schools are back in-person. Private education employers swung to a positive, adding 17,000 positions in October. We suspect seasonal adjustments were the culprit for the weakness, which should be revised in the coming months. Excluding education, government payrolls lost 8,000 workers in October, equally spread across federal, state and local levels.

Tucked within the professional & business services group, temporary help services—commonly known as temp hiring—added 41,100 workers during the month, an 8-month high. Temp hiring typically leads to permanent jobs.

Strong wage and income growth continues

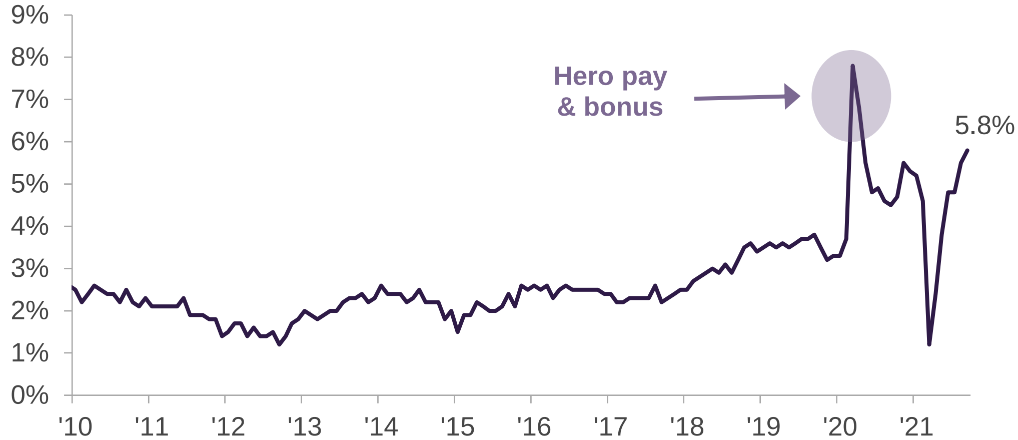
Wage and income growth continued to increase in October. Average hourly earnings increased 4.9% from a year ago, well above the 2019 average of 3.3% and more than double the 2.4% average for the decade before the pandemic (2009 through 2019).

More importantly, average hourly earnings for production & nonsupervisory employees jumped to 5.9% year over year. Excluding the large spike last year for so-called hero pay for front-line workers and pandemic-related bonuses many employers used to entice workers, it was the fastest annual growth since 1982. Most of those programs have expired in 2021 (hence the large year-over-year decline this past spring), though some are still giving bonuses for vaccinations, while a few have maintained hero pay.

The pace of wage growth for rank and file workers is also well above the 3.6% pace during 2019 and the 2.4% average from 2009 through 2019. This is important insofar as production & nonsupervisory employees are the bulk of all employees.

Average hourly earnings for production and nonsupervisory workers are up 5.8% from a year ago, well above the 2019 average of 3.3%.

Average hourly earnings of production & nonsupervisory employees (year-over-year change)



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

Our take

We're encouraged by the October jobs report, which had broad based across the major industry groups. As we expected, September was revised substantially higher, up 312,000 rather than a weak 194,000. August was similarly revised upward (to 483,000).

Some of October's strength is the result of pandemic-support programs, such as extended and enhanced unemployment benefits, which expired in early September. We believe this has pushed more workers back into the labor force, making them available to fill some of the estimated 6.6 million open positions nationwide. This trend of workers returning to work will likely continue in the coming months, but the labor force participation rate remains 1.7 percentage points lower than in February 2020. That is yet another indicator that not all workers want to go back to work.

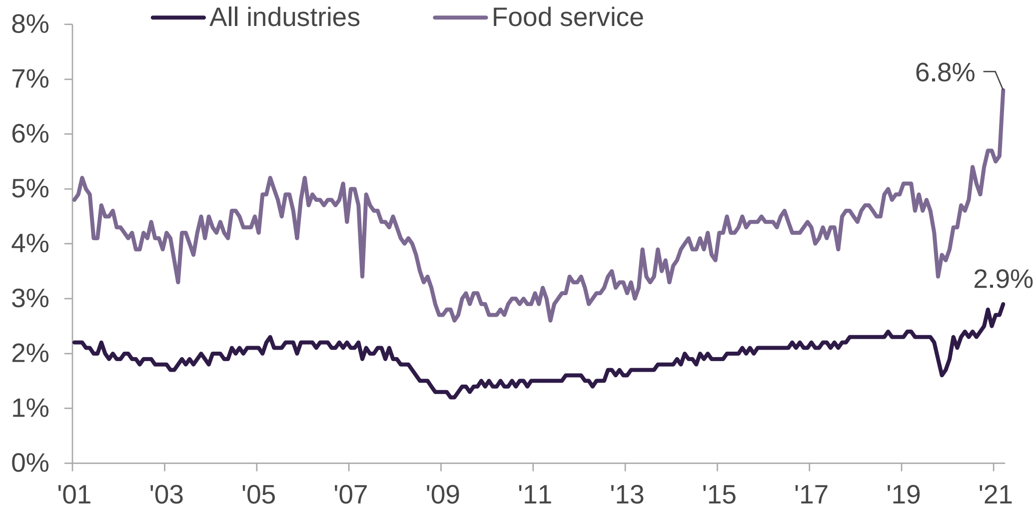
Additionally, October's strong hiring was coupled with solid wage and income growth, which is encouraging and supportive of broader economic growth. Higher incomes drive higher economic growth, which is obviously positive. However, we recognize wage gains are a double-edged sword – insofar as it pushes inflation higher as well.

Looking ahead, the aforementioned temp hiring is a strong signal. Companies quickly added temporary staff as the delta variant receded. A separate private staffing index soared to a 13-year high in the last week of October and has surged for seven straight weeks, well ahead of the holiday season. Nonetheless, an increase indicates a need for more workers, which tends to be a good indication of permanent job growth.

We expect more month-to-month swings due to the ongoing tension between workers and employers. Some workers have held out for higher wages, while record numbers have quit as some employers have balked.

While the rate employees have voluntarily quit has increased, the quit rate within food service has surged to an all-time high in 2021.

U.S. employee quit rates by industry



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through August 2021.

The rate employees in all industries have voluntarily quit their jobs has increased to 2.9% in from the 2.2% pre-pandemic three-year pace. However, the quit rate within food service in 2021 has spiked to 6.8%, an all-time high and well above the pre-pandemic three-year average of 4.5%.

Ultimately, this report supports our view the U.S. economy reaccelerated following third quarter softness due to the delta variant, which punched growth. Overall demand for goods and services remains solid. Furthermore, we expect above-trend economic growth of 4.5% year over year in 2022, roughly twice as fast as the pre-pandemic 10-year trend of 2.3%.

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