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September Employment Story Mixed + Surprises

Job Growth Anemic But Unemployment Rate Down, Labor Force Up

October 8, 2012 By William L. Pittenger, MAI, SRA

The much anticipated September jobs report was mixed. Payroll employment rose by a net 114,000 jobs which was in line with expectations. Private sector payrolls increased by 104,000 jobs and government rose by 10,000. There was job growth in the state and federal government sectors but more decline in local government.

Job growth totals for July and August were also revised up. July was revised upward fractionally to142,000 while August was unexpectedly revised upward significantly to181,000 for a net increase of 86,000 jobs for the two prior months. The revisions are disconcerting because of their size and apparent volatility. The August revision, for example, was nearly double the originally reported total (96,000 to 181,000) increase. The government sector was largely responsible for the large revision. The first August report showed a *loss* of 7,000 government jobs. The revision showed a *net gain* of 45,000 which is an unusually large swing. Eventually the reasons for the extraordinary variance will become clear. At first glance, however, it appears to be a product of declining government job cuts and difficulty in the seasonal adjustment process. The summer and fall months are notoriously more volatile than other months.

Looking at payroll growth longer term, which is always preferable to just the early monthly estimates, shows that the average monthly gain thus far in 2012 was 146,000 as compared to 153,000 per month in 2011. Both are relatively anemic and unlikely to drive robust growth in the broader economy or return the unemployment rate to its long term average of around 5.7%.

Drilling deeper into the numbers shows that the private *service* sector added 114,000 jobs while the private goods producing sector lost 10,000 jobs. Manufacturing, which has been showing considerable weakness lately, shed 16,000 jobs with the largest declines being in computer and electronic products. Manufacturing weakness appears to be driven by equal parts of weak domestic and global demand.

In the service sector, healthcare gained 44,000 jobs over the month and 295,000 over the last 12 months. Transportation and warehousing gained 17,000 jobs in September and 104,000 over the year. Financial activities grew by about 13,000 jobs while professional and business services also added about 13,000 jobs. Sector growth was driven by modest improvement in real estate and credit intermediation.

The number of involuntary part time workers increased from 8.0 to 8.6 million in September. This too was a stunning increase and should be viewed cautiously. The number of persons unemployed long term (27 weeks or more) declined slightly to 4.8 million but the total is still historically high and represents some 40.1% of the 12.1 million unemployed persons. The labor force participation rate, which has been hovering at a 31 year low of 63.5%, was virtually unchanged at 63.6% .

Turning to unemployment, the headline or "official " unemployment rate fell to 7.8% which is the lowest it has been since January 2009. September ended a run of 43 consecutive months over 8%. Unemployment estimates are based on a separate and much smaller survey of households. In September, the number of unemployed persons declined by 456,000 to 12.1 million persons while total employment rose by 873,000 jobs. The *under*employment rate which is the official rate (U-3) plus involuntary part time, marginally attached and discouraged (U-6 measure) was unchanged at 14.7%.

Employment Surprises & Outlook

The September Employment Situation report contained at least three surprises that cause us to regard the report judiciously. First was the very large revision in August payroll employment growth. The total nearly doubled from the originally reported gain of 96,000 jobs a month ago to 181,000 now. In the same report, the government sector moved from a net loss of 7,000 jobs in August to a revised net gain of 45,000. Secondly, the number of involuntary part time workers rose in September by nearly 600,000 over August. Finally, the unemployment rate dipped to 7.8%. The magnitude of the swings and revisions are unusually large. We suspect that much of the variation is the product of the summer and fall seasonal adjustments which history has shown can be notoriously volatile although rarely this large. We suspect there will be much more analysis by the Bureau of Labor Statistics over the next 30 to 60 days and the numbers will change again . We strongly suspect that the unemployment rate will ultimately be revised back above 8% over the next couple of months.

Nevertheless, the economy has added 1.3 million payroll jobs in the first nine months of 2012. That would put the sector on track to add around 1.8 million jobs for the full year; far fewer than the 2.1 million jobs added in all of 2011 and around enough to keep up with population growth. The economy is not on track for robust job growth over the short term. While many companies are flush with cash, they are reluctant to hire. Most fear the coming fiscal cliff. Some fear uncertain government policy including monetary policy, regulation, health care cost, taxation and more. At the current rate of job creation, recovery in the employment is likely a 2015 or later event. For the short term, we anticipate anemic job growth and an unemployment rate that continues to hover at or very near the 8% mark.

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