

## US Watch

## September employment: Late summer surge

**Payroll growth jumps in September**

Nonfarm payroll employment topped all expectations with a 336k increase. There were also net revisions totaling 119k to the prior two months, which reversed a trend of downward revisions. Hence, the three-month MA for payroll growth was 266k, highest since March and above the natural labor force growth. It also now looks like hiring in June (+105k) was an outlier, not a turning point. The labor market remains robust.

**Laggards are still playing catch-up**

While job growth remains rapid, it continues to be narrowly driven by high touch services sectors—education and health, leisure and hospitality, and other services. These three sectors added 170k jobs in September and have accounted for 55% of nonfarm payroll growth this year. In fact, the food services and drinking sector jobs have returned to pre-pandemic levels of employment. Job growth in the private sector excluding these three industries was 64k in September, its first increase since May. In short, the sectors that lagged behind the broader labor market recovery continue to hire at a rapid clip.

**Soft wages**

Wage growth, meanwhile, was on the softer side despite robust hiring. Average hourly earnings for all employees rose by 0.2% m/m resulting in the y/y rate edging down to 4.2% from 4.3%. Over the last three months average hourly earnings for all employees has grown by a relatively modest 3.4%, and 4.1% annualized over the last six months. (Table 4). In short, wages are cooling, which is a good development for the Fed and inflation. However, the risk is that wage growth accelerates given the tight labor market.

**Supportive income growth**

The jump in employment combined with the positive, but soft, wage increase, and no change to hours worked resulted in a 0.4% increase in the aggregate payrolls index. The index is a reliable measure of aggregate wage income growth. In 3Q it grew at a 5.3% annualized pace down from 6.5% in June but above inflation. In other words, real wage income growth was positive in 3Q and supportive of consumption growth.

**U-rate holds at 3.8%**

On the household survey side, the unemployment rate and the labor force participation rate held at 3.8% and 62.8% respectively. Converse to nonfarm payroll employment, household employment rose by only 86k in September. There remains a wedge between nonfarm payroll employment and household employment. Indeed, household employment has added 678k jobs over the last six months compared to 1402k jobs on nonfarm payrolls. This wedge can largely be explained away by the different definitions of employment between the two surveys. *(Continued on next page)*

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Macro  
United StatesUS Economics  
BofAS

**Stephen Juneau**  
US Economist  
BofAS  
+1 202 442 7429  
[stephen.juneau@bofa.com](mailto:stephen.juneau@bofa.com)

**Aditya Bhawe**  
US Economist  
BofAS  
+1 646 855 9929  
[aditya.bhawe@bofa.com](mailto:aditya.bhawe@bofa.com)

**Michael Gapen**  
US Economist  
BofAS  
+1 646 855 3270  
[michael.gapen@bofa.com](mailto:michael.gapen@bofa.com)

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Committee

k: thousand

saar: seasonally adjusted annual rate

AHE: Average Hourly Earnings

MA = Moving Average

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## The bottom line

The broad message from the September employment report is that the labor demand remains robust even if it is limited to a few sectors. The economy continues to add jobs at a rate well above the growth in labor supply. That said, the moderation in wages over the last two months suggest that the balance between demand and supply has improved. In terms of the implications for the Fed, we maintain our call for the Fed to hike in November as this report strengthens our case for another hike.

**Table 1: Summary of jobs data (most recent 6 months)**

Nonfarm payrolls have increased by an average of 234k over the last six months

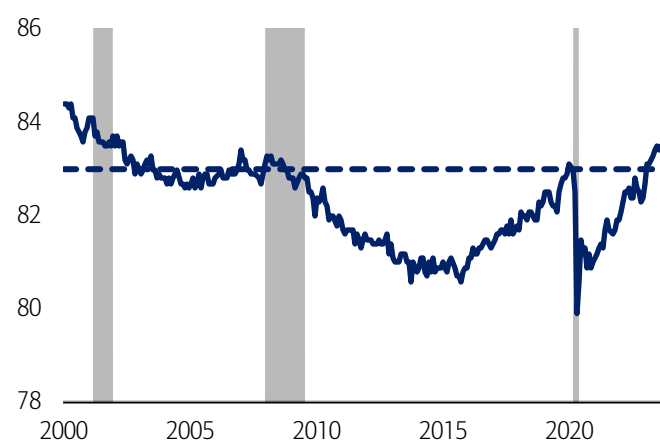
	Sep	Aug	Jul	Jun	May	Apr
<b>Establishment survey</b>						
Nonfarm payrolls	336k	227k	236k	105k	281k	217k
Private payrolls	263k	177k	145k	86k	255k	179k
Construction	11k	36k	12k	29k	25k	11k
Manufacturing	17k	11k	-2k	4k	-4k	9k
Government	73k	50k	91k	19k	26k	38k
Average weekly hours	34.4	34.4	34.3	34.4	34.3	34.4
Avg hrly earnings (mom %)	0.2%	0.2%	0.4%	0.4%	0.3%	0.4%
<b>Household survey</b>						
Unemployment rate	3.8%	3.8%	3.5%	3.6%	3.7%	3.4%
Participation rate	62.8%	62.8%	62.6%	62.6%	62.6%	62.6%
Labor force	90k	736k	152k	133k	130k	-43k
Household jobs	86k	222k	268k	273k	-310k	139k
Employment to pop. ratio	60.4%	60.4%	60.4%	60.3%	60.3%	60.4%

Source: Bureau of Labor Statistics

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**Exhibit 1: Prime age labor force participation rate (%), dotted line = December 2019-February 2020 average)**

The prime age participation rate is now above its pre-pandemic level

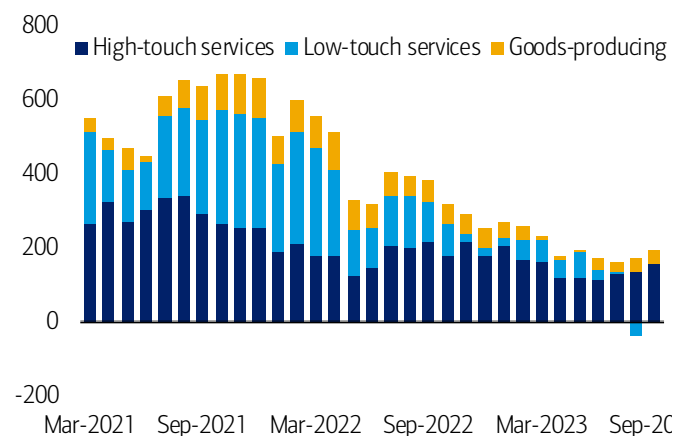


Source: Bureau of Labor Statistics

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**Exhibit 2: Private sector job growth (thous, sa)**

Job growth has become increasingly narrowly driven



Source: Bureau of Labor Statistics, BofA Global Research

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**Table 2: Monthly payroll growth heatmap (m/m change, 000s sa)**

Job growth has increasingly been driven by a narrower group of industries

Sep-23 nfp share	Component	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22
100%	<b>Total nonfarm</b>	<b>336</b>	<b>227</b>	<b>236</b>	<b>105</b>	<b>281</b>	<b>217</b>	<b>217</b>	<b>248</b>	<b>472</b>	<b>239</b>	<b>290</b>	<b>324</b>
85%	<b>Total private</b>	<b>263</b>	<b>177</b>	<b>145</b>	<b>86</b>	<b>255</b>	<b>179</b>	<b>157</b>	<b>193</b>	<b>353</b>	<b>232</b>	<b>228</b>	<b>299</b>
14%	Goods-producing	29	47	12	32	24	25	-19	18	41	36	41	57
0%	Mining and logging	1	0	2	-1	3	5	2	1	4	4	8	3
5%	Construction	11	36	12	29	25	11	-9	14	26	26	19	17
8%	Manufacturing	17	11	-2	4	-4	9	-12	3	11	6	14	37
5%	Durable goods	13	13	12	17	3	13	-5	1	0	23	14	27
3%	Nondurable goods	4	-2	-14	-13	-7	-4	-7	2	11	-17	0	10
72%	Service-providing	234	130	133	54	231	154	176	175	312	196	187	242
18%	Trade, transportation, and utilities	45	-17	20	-48	48	-17	3	36	61	36	-84	31
4%	Wholesale trade	12	0	15	-7	8	-2	4	7	9	10	0	16
10%	Retail trade	20	0	13	-23	21	-2	-19	48	22	27	-46	-6
4%	Transportation and warehousing	9	-19	-7	-19	19	-15	16	-18	32	0	-37	20
0%	Utilities	5	2	-2	1	1	2	2	-1	-2	-1	-1	1
2%	Information	-5	-21	-19	-10	-4	3	3	-8	-23	-9	13	3
6%	Financial activities	3	2	15	2	13	27	-5	0	-1	4	11	18
15%	Professional and business services	21	11	-29	-1	45	48	45	21	44	23	0	36
16%	Education and health services	70	97	104	79	88	77	70	64	111	71	95	85
11%	Leisure and hospitality	96	44	38	26	28	11	46	57	99	58	123	61
4%	Other services	4	14	4	6	13	5	14	5	21	13	29	8

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Table 3: Monthly average hourly earnings heatmap (% m/m)**

Wage growth was soft in September

Sep-23 nfp share	Component	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22
85%	<b>Total private</b>	<b>0.21%</b>	<b>0.24%</b>	<b>0.39%</b>	<b>0.45%</b>	<b>0.33%</b>	<b>0.42%</b>	<b>0.27%</b>	<b>0.27%</b>	<b>0.30%</b>	<b>0.37%</b>	<b>0.43%</b>	<b>0.40%</b>
14%	Goods-producing	0.32%	0.20%	0.71%	0.56%	0.45%	0.48%	0.54%	0.21%	0.51%	0.33%	0.43%	0.46%
0%	Mining and logging	0.21%	0.26%	0.50%	-0.16%	0.79%	1.23%	0.46%	0.38%	0.90%	0.52%	0.58%	-0.19%
5%	Construction	0.33%	0.19%	0.85%	0.25%	0.42%	0.33%	0.42%	0.42%	0.25%	0.48%	0.51%	0.57%
8%	Manufacturing	0.34%	0.15%	0.62%	0.81%	0.41%	0.50%	0.63%	0.03%	0.64%	0.22%	0.35%	0.42%
5%	Durable goods	0.32%	0.15%	0.65%	0.56%	0.54%	0.42%	0.66%	0.06%	0.67%	-0.06%	0.21%	0.46%
3%	Nondurable goods	0.40%	0.23%	0.44%	1.22%	0.14%	0.62%	0.58%	-0.03%	0.59%	0.63%	0.60%	0.39%
72%	Service-providing	0.18%	0.24%	0.33%	0.39%	0.33%	0.39%	0.24%	0.27%	0.24%	0.37%	0.43%	0.40%
18%	Trade, transportation, and utilities	0.41%	0.34%	0.17%	0.49%	0.10%	0.59%	0.17%	0.81%	0.53%	0.21%	0.46%	0.47%
4%	Wholesale trade	0.38%	0.57%	0.08%	0.85%	-0.08%	0.55%	0.11%	0.36%	1.03%	0.53%	0.34%	0.82%
10%	Retail trade	0.33%	0.33%	0.17%	0.25%	0.00%	0.29%	-0.04%	1.06%	0.30%	-0.04%	1.08%	0.43%
4%	Transportation and warehousing	0.41%	0.17%	0.24%	0.59%	0.31%	0.87%	0.42%	0.78%	0.35%	0.21%	-0.11%	0.07%
0%	Utilities	0.20%	-0.20%	0.56%	0.46%	0.49%	0.30%	0.76%	0.20%	0.78%	0.62%	-0.10%	0.46%
2%	Information	-0.15%	0.27%	0.10%	-0.21%	1.05%	-0.89%	0.31%	0.34%	0.02%	0.59%	-0.42%	-0.15%
6%	Financial activities	0.43%	0.83%	0.65%	0.77%	0.75%	-0.07%	0.38%	0.09%	0.21%	0.69%	0.17%	-0.07%
15%	Professional and business services	0.27%	-0.07%	0.57%	0.32%	0.22%	0.48%	0.45%	0.23%	0.38%	0.33%	0.54%	0.49%
16%	Education and health services	0.15%	0.24%	0.30%	0.34%	0.18%	0.31%	0.06%	-0.21%	0.37%	0.34%	0.53%	0.59%
11%	Leisure and hospitality	0.00%	0.19%	0.09%	0.33%	0.48%	0.53%	0.67%	0.05%	0.00%	0.82%	0.83%	0.59%
4%	Other services	0.20%	0.64%	0.20%	0.30%	0.41%	0.85%	-0.81%	0.17%	0.44%	-0.14%	0.82%	0.17%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Table 4: Annual average hourly earnings heatmap (% y/y)**

Annual wage growth rose by 4.2% y/y in September

Sep-23 nfp share	Component	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22
85%	<b>Total private</b>	<b>4.15%</b>	<b>4.26%</b>	<b>4.33%</b>	<b>4.41%</b>	<b>4.34%</b>	<b>4.38%</b>	<b>4.30%</b>	<b>4.68%</b>	<b>4.39%</b>	<b>4.77%</b>	<b>4.99%</b>	<b>4.88%</b>
14%	Goods-producing	5.32%	5.37%	5.35%	5.06%	4.70%	4.59%	4.65%	4.58%	4.33%	4.51%	4.66%	4.48%
0%	Mining and logging	5.62%	5.66%	5.01%	5.71%	6.91%	7.12%	4.78%	4.39%	4.67%	3.36%	3.00%	3.13%
5%	Construction	5.14%	5.21%	5.41%	4.85%	5.01%	5.18%	5.42%	5.50%	5.31%	5.83%	5.92%	5.57%
8%	Manufacturing	5.23%	5.22%	5.19%	5.02%	4.24%	3.92%	4.05%	3.94%	3.56%	3.72%	3.90%	3.78%
5%	Durable goods	4.73%	4.78%	4.88%	4.50%	3.88%	3.55%	3.82%	3.85%	3.11%	3.45%	3.84%	4.08%
3%	Nondurable goods	5.94%	5.74%	5.38%	5.74%	4.73%	4.55%	4.35%	3.89%	4.34%	4.07%	3.94%	3.18%
72%	Service-providing	3.88%	3.98%	4.09%	4.26%	4.28%	4.33%	4.25%	4.69%	4.44%	4.85%	5.07%	4.99%
18%	Trade, transportation, and utilities	4.87%	4.82%	4.76%	4.92%	4.57%	4.99%	4.45%	4.95%	4.49%	4.63%	4.92%	4.86%
4%	Wholesale trade	5.67%	5.36%	4.98%	5.34%	5.27%	5.11%	4.75%	4.93%	5.07%	4.09%	4.11%	4.04%
10%	Retail trade	4.24%	4.16%	4.00%	4.32%	4.43%	4.66%	3.98%	4.85%	4.26%	4.45%	4.97%	4.17%
4%	Transportation and warehousing	4.41%	4.73%	5.11%	5.13%	3.50%	4.72%	4.23%	4.09%	3.78%	3.64%	4.00%	5.51%
0%	Utilities	4.63%	5.61%	5.60%	4.96%	4.99%	5.75%	5.14%	5.77%	5.19%	4.98%	5.97%	6.43%
2%	Information	0.86%	1.82%	3.42%	3.58%	4.56%	4.25%	5.67%	5.18%	5.78%	5.92%	6.22%	6.55%
6%	Financial activities	4.92%	5.22%	4.66%	4.43%	4.42%	3.77%	4.02%	4.42%	3.99%	4.15%	3.62%	3.72%
15%	Professional and business services	4.28%	4.21%	4.53%	4.51%	4.30%	4.23%	4.44%	4.80%	4.64%	4.94%	5.21%	5.01%
16%	Education and health services	3.24%	3.02%	2.90%	3.33%	3.60%	3.90%	3.88%	4.28%	4.14%	4.76%	5.32%	5.11%
11%	Leisure and hospitality	4.68%	4.83%	5.20%	5.63%	5.81%	5.89%	5.92%	6.67%	7.00%	6.56%	6.46%	6.40%
4%	Other services	3.30%	3.84%	3.36%	3.84%	4.54%	4.30%	3.35%	4.27%	3.73%	3.45%	4.14%	3.77%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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**Exhibit 3: Labor market dashboard**

Employment data show a broad-based recovery across demographics

Indicator	Prepandemic avg	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22
<b>Unemployment Rate</b>													
Total	3.5	3.8	3.8	3.5	3.6	3.7	3.4	3.5	3.6	3.4	3.5	3.6	3.7
Prime age (25-54)	3.0	3.2	3.1	3.0	3.1	3.1	3.1	2.9	3.1	3.0	2.9	3.2	3.2
Men	3.5	4.1	4.0	3.6	3.7	3.7	3.5	3.6	3.6	3.6	3.4	3.7	3.7
Women	3.5	3.4	3.5	3.4	3.4	3.6	3.3	3.4	3.5	3.3	3.6	3.6	3.7
White	3.1	3.4	3.4	3.1	3.1	3.3	3.1	3.2	3.2	3.1	3.0	3.3	3.3
Black	6.1	5.7	5.3	5.8	6.0	5.6	4.7	5.0	5.7	5.4	5.7	5.7	5.9
Hispanic	4.3	4.6	4.9	4.4	4.3	4.0	4.4	4.6	5.3	4.5	4.1	4.0	4.2
Asian	2.7	2.8	3.1	2.3	3.2	2.9	2.8	2.8	3.4	2.8	2.4	2.6	2.9
<b>Employment Population Ratio</b>													
Total	61.1	60.4	60.4	60.4	60.3	60.3	60.4	60.4	60.2	60.2	60.1	59.9	60.0
Prime age (25-54)	80.5	80.8	80.9	80.9	80.9	80.7	80.8	80.7	80.5	80.2	80.1	79.7	79.8
Men	66.8	65.5	65.5	65.5	65.6	65.5	65.7	65.9	65.6	65.5	65.8	65.6	65.6
Women	55.8	55.5	55.6	55.5	55.3	55.3	55.4	55.2	55.2	55.1	54.8	54.5	54.6
White	61.3	60.3	60.4	60.3	60.4	60.2	60.3	60.2	60.1	60.2	60.2	59.8	60.0
Black	59.2	59.3	59.3	59.1	58.9	59.6	60.0	60.9	59.8	59.5	58.9	58.8	58.4
Hispanic	64.7	64.2	63.8	64.4	64.4	64.2	63.8	63.7	63.2	63.3	63.5	63.1	63.3
Asian	62.2	63.8	63.6	64.1	63.3	63.2	63.1	63.1	62.8	62.3	62.7	63.0	62.9
<b>Labor force participation rate</b>													
Total	63.3	62.8	62.8	62.6	62.6	62.6	62.6	62.6	62.5	62.4	62.3	62.2	62.2
Prime age (25-54)	83.0	83.5	83.5	83.4	83.5	83.4	83.3	83.1	83.1	82.7	82.4	82.3	82.5
Men	69.2	68.3	68.2	68.0	68.1	68.1	68.1	68.4	68.0	67.9	68.1	68.1	68.1
Women	57.8	57.5	57.7	57.4	57.3	57.3	57.3	57.1	57.2	57.0	56.8	56.5	56.7
White	63.2	62.4	62.5	62.3	62.3	62.3	62.3	62.2	62.1	62.1	62.1	61.8	62.0
Black	63.0	62.9	62.6	62.7	62.6	63.2	63.0	64.1	63.4	62.9	62.4	62.3	62.1
Hispanic	67.6	67.3	67.1	67.4	67.3	66.9	66.8	66.8	66.8	66.3	66.3	65.7	66.1
Asian	63.9	65.7	65.6	65.7	65.4	65.1	64.9	64.9	65.1	64.1	64.2	64.8	64.8
<b>Wage measures</b>													
Employment Cost Index (quarterly, % yoy)	2.7	n.a.	n.a.	n.a.	4.5	n.a.	n.a.	4.8	n.a.	n.a.	5.1	n.a.	n.a.
Atlanta Wage Growth Tracker (% yoy, 12mma)	3.7	n.a.	6.0	6.0	6.1	6.3	6.3	6.4	6.3	6.3	6.3	6.2	6.0
NFIB: % Raising Compensation	33.7	36.0	36.0	38.0	36.0	41.0	40.0	42.0	46.0	46.0	44.0	40.0	44.0
NFIB: % Planning to Raise Compensation	22.3	23.0	26.0	21.0	22.0	22.0	21.0	22.0	23.0	22.0	27.0	28.0	32.0
Conference Board: 6-Month Ahead Income Change	22.3	16.3	18.7	17.8	18.6	18.9	17.3	16.2	14.4	17.4	17.3	17.1	19.6
U of M: 1-Yr Ahead Income Change Expectations (Median)	2.2	1.7	2.4	1.9	1.9	2.3	1.7	1.5	2.4	2.5	2.5	2.5	1.9
NY Fed: 1-Yr Ahead Earnings Growth Expectation	2.5	n.a.	2.9	2.8	3.0	2.8	3.0	3.0	3.0	3.0	3.0	2.8	3.0

Source: Bureau of Labor Statistics

Note: Prepandemic average is the average of each indicator from December 2019-February 2020

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