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Friday Finish – US Economics | North America

Labor of Love

Data this week reinforce our view that the labor market remains strong despite slowing. The rebounds in payrolls and JOLTS should keep the Fed on pace for a 25bp cut in November.

by **Seth Carpenter**

The clear takeaway from this week is that the American labor market remains strong, despite some soft prints from the summer. We have been consistently constructive on the US economy, despite the June, July, and August payroll reports. We saw more noise than signal in that data, and the fact that consumer spending remained solid gave us comfort. This week, the JOLTS and unemployment insurance claims data, and most importantly the monthly jobs report, all confirm the underlying strength of the economy.

We have said that the implications of the labor market data are asymmetric for our Fed call: a weaker jobs number would push us to 50bp cuts whereas stronger data would leave our 25bp cut forecast intact. We maintain our view for a 25bp cut at both the November and December meetings. In our view, a strong labor market alone would not get the Fed to pause. We would need to see a strong and broad-based reacceleration in inflation as well, which we think is unlikely.

Tuesday's JOLTS data for August showed a partial reversal from the fall in job openings. To be clear, the job opening rate is still well below its peak, and the labor market has assuredly cooled. But Chair Powell had increasingly pointed to the job opening rate and the Beveridge Curve as informing his views on how much cooling the labor market has experienced. He noted at Jackson Hole that no further cooling would be welcome, and the JOLTS data was cooperative. But our stance on the economy has been predicated on a view that some slowing is possible without a crash, and in particular, the lack of evidence of widespread layoffs has been a key factor in our view. The JOLTS data gave us further comfort.

The weekly unemployment insurance data are always noisy, but we look for signal in both the initial claims and in the continuing claims. Although the initial claims data ticked up, the retreat from the elevated summer seasonality looks intact. Continuing claims declined again, suggesting that even those workers who have been laid off are getting reabsorbed into the labor market fairly easily. As we note below, some of the data from today's payroll print are consistent with that view.

The monthly jobs data clearly matter most this week. The headline 254k in new payrolls alone should be enough to quiet the bearish voices for now. The 223k in private payrolls confirms the underlying strength of the private sector. The net upward revisions to the prior two months should also allay any residual concerns about the softness seen in prior months. Labor income is a key variable, and the large increase in jobs was combined with a fairly solid 0.4% increase in average hourly earnings, compounding an upward revision to earnings for the prior month. Aggregate payroll earnings rose at a 4.4% annual rate in 3Q, only a touch below

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their 4.8% rise over the past year. The strength in income reflects continued business demand for labor and provides continued support for consumption growth.

Labor demand picked up across most services industries in September. Consumer-related payrolls were especially strong, with renewed strength in retail and in leisure & hospitality payrolls. Healthcare payrolls reaccelerated, and business services payrolls rebounded after a couple months of decline—lessening any specific concerns about those sectors. In contrast, the manufacturing sector remained weak, consistent with signals from surveys. But throughout the recovery from Covid, we have seen episodes where manufacturing is in its own cycle, yet the economy in the aggregate remains strong.

Strength in payrolls was corroborated by the household-survey decline in the unemployment rate. At 4.1% (4.05% before rounding), it reversed most of its 3Q rise. We pulled our 4-Q unemployment rate back down by a tenth to 4.2%, below the Fed's 4.4% forecast for the end of the year. Moreover, the household survey showed a reversal in flows from employment to unemployment. The labor market stabilized. Coming into the September FOMC meeting, the Fed was surprised by the extent of the slowdown in inflation and the rise in unemployment, which explains that first 50bps. Coming into the end of the year, we think they will see in-line inflation and a slightly stronger-than-expected labor market, which holds them to 25bps.

Enjoy your weekend.

Exhibit 1: Data Flow Next Week: For more detail see our [Key Data Watch](#)

Week of October 7th			
Date	Indicator	MS Forecast	Comments
7-Oct	Consumer Credit (Aug)		Non-mortgage consumer credit slowed sharply in 2023. Its further slowing this year was interrupted in July.
8-Oct	NFIB Small Business Index (Sept)		Small business confidence has been bouncing around its post-pandemic lows since mid-2022.
9-Oct	FOMC Meeting Minutes		We will scrutinize how FOMC members were characterizing risks to employment and inflation. The slow pace of future cuts in the dot plot suggests that the FOMC reaction function hasn't changed, but any discussion of the pace of future cuts would be interesting.
10-Oct	CPI (Sept) Core CPI NSA CPI Index	0.09% 0.26% 314.718	<p>We forecast that gasoline prices held headline CPI to a 0.09% rise. Core prices rise 0.26% in September after a 0.28% rise last month. Housing inflation softens, but used cars accelerate and airfares remain positive. Core prices probably increased 3.2% over the past 12 months.</p> <p>Our forecast is consistent with a 0.19% rise in core PCE prices, a 1.9% annual rate over the past three months, and 2.5% over the past twelve months.</p> <p>Core goods prices stall in September, a break in their downtrend, but core services slow to 0.3% from 0.4%. Within services, rents step down from last month's 0.5% to 0.36%; airfare's a boost but not as large as last month; and medical prices rebound from a couple months' decline. The 0.3% rise we expect in core services ex housing is about in line with the 3Q average, above the summertime slows but down a tenth from the 1H average pace. The report extends the deceleration trend.</p>
10-Oct	Jobless claims	235k	We expect hurricane-related increase in jobless claims, but there will likely be delays in filing claims in NC.
11-Oct	U of Mich Consumer Sentiment (Oct F)		The sentiment index has been falling since the start of the year, led by current conditions at recessionary levels. Expectations look less weak. Long-run inflation expectations remain at 3.1%, still within their recent range.

Source: Morgan Stanley Research

Download the full 2024 data calendar [here](#)**Weekend Reading/Listening :**

- [US Economics: CPI Preview: Slight Deceleration \(04 Oct 2024\)](#)
- [US Economics: Strong Employment --> 25bps \(04 Oct 2024\)](#)
- [US Housing: US Housing Tracker: Lockin-In On Sales Volumes \(04 Oct 2024\)](#)
- [Podcast: Thoughts on the Market: Can China's Stimulus Shift its Economy? \(03 Oct 2024\)](#)
- [Podcast: The Weekly Worldview: Tariffs, revisited \(30 Sept 2024\)](#)

Past Friday Finish Commentary :

- [Friday Finish - US Economics: Road to November \(27 Sep 2024\)](#)
- [Friday Finish – US Economics: Recalibrations \(20 Sep 2024\)](#)
- [Friday Finish – US Economics: It's About to Go Down \(13 Sep 2024\)](#)
- [Friday Finish – US Economics: It's Friday ... and you still have a job \(6 Sep 2024\)](#)
- [Friday Finish – US Economics: It's About Labor Markets Now \(30 Aug 2024\)](#)
- [Friday Finish – US Economics: The Consumer in Context \(16 Aug 2024\)](#)

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