



## Orlando's Outlook: Powerful October jobs rebound

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**Bottom line** *The labor market shrugged off the devastation from Hurricane Michael last month, posting a much stronger-than-expected rebound in job creation, which more than offset the negative impact from Hurricane Florence in September. This morning's nonfarm payrolls report for October rose by a much stronger-than-expected gain of 250,000 jobs, well above consensus expectation for a solid gain of 200,000 jobs. The Labor Department revised September payrolls down by 16,000 jobs to an increase of only 118,000 due to Florence, so October's recovery more than lapped September's Florence-impaired hiccup.*

*Moreover, the October report was consistently strong across the board. The household survey added a powerful 600,000 jobs in October, average hourly earnings rose by a new 10-year high of 3.1% year-over-year (y/y), the unemployment rate (U-3) held at a 49-year cycle low of only 3.7%, the labor force participation rate rose to 62.9% and the labor impairment rate (U-6) dropped a tick to 7.4%, while the manufacturing and construction sectors recovered sharply last month by adding 32,000 and 30,000 jobs, respectively.*

*Hurricane Michael, which came up through the Florida panhandle on Oct. 7, was the fourth-most powerful storm on record to hit the U.S., and the worst storm in nearly half a century, causing more than \$8 billion in damages and killing at least 17 people. The Labor Department reported that 198,000 people weren't at work due to the bad weather in October 2018, compared with an historical 42-year average for all Octobers of 48,000 people missing work. By comparison, nearly 300,000 people couldn't work in September 2018 due to Hurricane Florence. This clearly demonstrates the strength of the labor market in October, which posted terrific job gains despite extreme weather.*

*This metric is the last major data point ahead of the midterm elections Tuesday, and it shows that the healthy economy remains on a roll. Last Friday's third-quarter GDP of 3.5% was stronger than expected, and we're three-fourths of the way through the third-quarter corporate-reporting season, with earnings up by a stronger-than-expected gain of 23% y/y. As a result, we still expect the Federal Reserve to hike interest rates again by a quarter point at their mid-December policy-setting meeting. The realization of this is giving the equity markets some indigestion today, after an S&P 500 rebound of nearly 6% over the past four days, from deeply oversold levels.*

**Nonfarm payrolls surprised** The powerful gain of 250,000 jobs in October was well above the Bloomberg consensus of 200,000 jobs and Federated's own more aggressive estimate of 227,000. The Bureau of Labor Statistics (BLS) revised September down by 16,000 jobs and August up by a like amount, netting out to no change over the two months. September was revised down from a preliminary gain of 134,000 jobs to a more modest increase of only 118,000 jobs this morning. August was revised up from a preliminary increase of 201,000 jobs, to a revised gain of 270,000 last month, to a final gain of 286,000 jobs this morning.

**Government hiring rose by only 4,000 jobs** That means that private payrolls grew by a stronger-than-expected gain of 246,000 in October versus consensus estimates for a private payroll gain of 195,000 jobs. Muted government hiring was paced by 2,000 local jobs, with 1,000 each added to state and federal payrolls.

**Household survey soars** The admittedly volatile household survey added another 600,000 jobs in October, after adding a strong 420,000 jobs in September, which reversed the loss of 423,000 jobs in August. July had added 389,000 jobs, so we appear to be back on track. This leading indicator for nonfarm and private payrolls serves as the basis for the official unemployment rate (U-3).

**Unemployment and labor-impairment rates fall, participation rate rise** The civilian labor force surged by 711,000 workers in October, up from a gain of 150,000 workers in September and a loss of 469,000 people in August. That pushed the labor-force participation rate (the share of working-age people in the labor force) back up to 62.9% in October from 62.7% in September. The four-year high was at 63% in February, and the 41-year low of 62.3% was set in September 2015.

Because of the sharp increase of 600,000 workers in the October household survey, the number of unemployed increased by 111,000 people in October. That kept the unemployment rate unchanged at 3.7% in October, a 49-year low.

The labor-impairment rate (U-6), also known as the "total" rate of unemployment (or the underemployment rate)

because it more broadly includes discouraged workers and the underemployed, ticked down to 7.4% in October, which matches a 17-year low.

**Wages and hours worked rise** Average hourly earnings rose 0.2% on a month-over-month basis in October, versus a 0.3% gain in September. But the y/y gain rose to 3.1% in October from 2.8% in September, its strongest gain since a 3.4% increase in April 2009. For the seventh time in the past nine months, the average private work week for all employees rose to 34.5 hours worked in October, up a tick from September's downwardly revised 34.4. This metric is important, as a change of 0.1 hour worked theoretically adds or subtracts 350,000 jobs to or from the economy.

**Manufacturing and construction rebound** The manufacturing sector continued its recovery in October, adding a much stronger-than-expected 32,000 jobs, versus 18,000 in September, 11,000 in August, and 22,000 in July. Despite the ongoing weakness in housing, construction added 30,000 jobs in October, versus 22,000 jobs in September, 31,000 in August and 19,000 in July.

**Transportation strong, but temps tepid and retail soft** The transportation sector is already gearing up for a strong online Christmas retail season, adding 25,000 new jobs in October, 21,000 in September and 23,000 jobs in August. Temporary help (a leading economic indicator) added only 3,000 jobs in October, versus a downwardly revised 8,000 in September, 11,000 in August and 10,000 in July. Retail bounced in October with a gain of 2,000 jobs versus a loss of 32,000 jobs in September, but the impact of Hurricanes Michael and Florence is likely being felt here, compared with a modest gain of 9,000 jobs in August. We had the best "Back-to-School" retail season this summer in seven years, so we expect better hiring trends in November ahead of the Christmas holidays.

**Claims, ADP and JOLTS remain strong** Initial weekly unemployment claims for the survey week that ended Oct. 13 were at 210,000, just off a 49-year cycle low from September's 202,000. Largely driven by a surge in large-company hiring, ADP posted a much stronger-than-expected gain of 227,000 workers in October, which is a 10-month high, versus 218,000 in September. For the second consecutive month, the Job Openings and Labor Turnover Survey (JOLTS) posted a record 7.136 million openings in August (the last available data point), so there are 902,000 more available jobs than unemployed workers to fill them. Also, 3.56 million Americans quit their jobs in August, as the quits rate remained unchanged at a 17-year high of 2.4%.

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Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

The Job Openings and Labor Turnover Summary (JOLTS) is conducted monthly by the U.S. Bureau of Labor Statistics.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

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