Ed's Eye on the Economy

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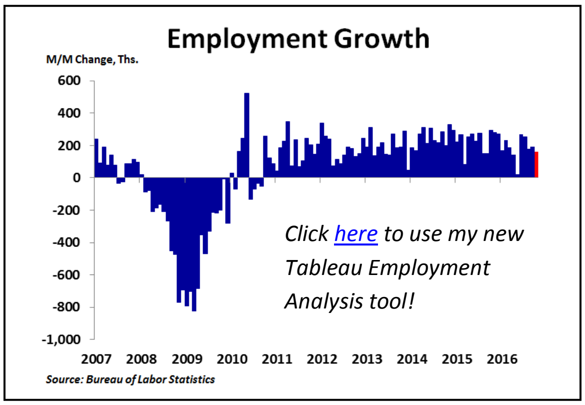
October Employment Report

Professional and business services and healthcare drive job growth

Job growth weakened in October as the economy only generated 161K new jobs, down from the 191K increase in September and less than the 178K consensus forecast. However, the 35K upward revision for September offset the weakness in October. The rate of job growth slipped back to 1.7% y/y.

Professional and business services led



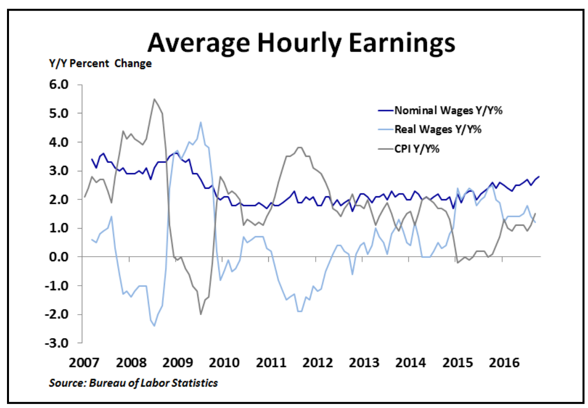
the way in October as 43K new jobs were created. Even so, that was 35K fewer new jobs compared to September, which was largely due to a big slowdown in temporary help services job growth. Healthcare services rebounded from a very weak September to create 39K new jobs in October, while education services added 12K more people to the payrolls. Unusually, government was one of the best performers last month as 19K new people found jobs, primarily driven by strong hiring at the federal level. Financial services also rebounded from a weak September, adding 14K new positions. Construction job growth slipped to just 11K from 23K the prior month. Leisure and hospitality services also added 10K new staff.

On the downside, manufacturing lost another 9K jobs as global weakness continues to weigh on the industry while automation and robotics have become more prevalent. Mining and logging lost another 2K jobs, continuing the streak of job losses that started in October 2014. Retail trade had a terrible month in October as the industry lost 1K jobs, primarily driven by job losses in clothing and electronics.

The unemployment rate slid to 4.9% from 5.0%, but this was due to a 195K drop in the labor force, of which 152K were unemployed, according to the household survey.

Average hourly earnings rose by 0.4% on the month and were up 2.8% from a year ago, near the strongest rate of growth since June 2009. However, with inflation moving up recently, real wage growth has dipped to 1.2% y/y, the worst rate of growth in two years.

Today's report is the final look at the labor market before the election. Although job growth was less than expected, it was still positive, continuing a streak that has lasted for



six years. With growth in wages and inflation ticking up, the Fed will likely raise interest rates in December, barring any unforeseen circumstances, but decided to hold off at this week's meeting so as not to inject itself into the election process. This may have been a wise move, but it has also led some to believe the supposedly non-political Fed is playing politics.

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