SUMMARY

- The U.S. economy added a very strong 271,000 jobs in October, with a net positive upward revision to job growth in August and September of 12,000.
- The unemployment rate fell from 5.1 percent to 5.0 percent, its lowest level since April 2008.
- Average hourly earnings jumped a very good 0.4 percent in October, and are up 2.5 percent from one year earlier.
- The strong jobs report greatly increases the likelihood that the FOMC will raise the federal funds rate when it meets in mid-December.
- Productivity rose 1.6 percent annualized in the third quarter, in part because of a decline in hours worked. Unit labor costs were up 1.4 percent.

Payroll jobs rose by 271,000 in October, far above the market consensus of 175,000 and PNC's forecast of 190,000. October private-sector employment was up by 268,000, much better than the ADP figure of 182,000. State and local government jobs were up by 5,000 and federal government jobs were down by 2,000. There was a downward revision to job growth in September to 137,000 (from 142,000), but a bigger upward revision in August to 153,000 (from 136,000), for a net upward revision of 12,000 jobs. During the first ten months of 2015 payroll job growth averaged 208,000 per month, a moderate slowing from the average of 243,000 per month in 2014. The three-month moving average of job growth ending in October was 187,000, down only slightly from the 214,000 average over the first seven months of 2015.

The unemployment rate dropped from 5.1 percent in September to 5.0 percent in October, the lowest rate since April 2008. However, the decline was less impressive before rounding, from 5.05 percent to 5.04 percent. The number of people who reported having jobs in the household survey (different from the survey of employers) was up by 320,000 in October, more than reversing the decline of 236,000 in September. The year-to-date average monthly increase of 168,000 is a slowing from the average of 231,000 per month in 2014. The labor force rose by 313,000 in October, mostly reversing its decline of 350,000 in September, while the number of unemployed declined by 7,000. The labor force participation rate held steady at 62.4 percent, its lowest level since October 1977. The U-6 unemployment rate (unemployed, "under employed" and too discouraged to even look for a job) fell by 0.2 percentage point to 9.8 percent in October, its lowest level since March 2008 (see Chart 1). Part-time jobs for economic reasons ("involuntary part-time jobs") fell by 267,000 in October and are down by 1.25 million from a year ago. Voluntary part-time jobs rose by 198,000 in October and are up by 376,000 from a year ago. Thus, of the 1.86 million rise in the household measure of jobs over the past year, more than all of them were full-time, as total part-time jobs fell by 869,000.

The breadth of payroll job growth was widespread in services in October, but soft in goods-producing industries. Mining jobs fell by 4,000, the tenth straight monthly decline totaling 109,000 jobs lost. Manufacturing employment was unchanged, but construction jobs jumped by 31,000. Private service-producing industries added 241,000 jobs in October. This included gains of 78,000 in professional/business services (including 25,000 temp jobs), 57,000 in eds and meds, 51,000 in trade/transportation/utilities, 41,000 in leisure/hospitality services, and 5,000 in financial activities. Employment in information services fell by 1,000 over the month.

There was also very good news on the wage front: average hourly earnings jumped by 0.4 percent in October and are up
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2.5 percent from one year earlier, the fastest pace since mid-2009 (see Chart 2). The average workweek held steady at 34.5 hours in October. Combining more workers, higher average wages and a steady average workweek (total hours worked rose by 0.3 percent), workers’ earned income rose by a very strong 0.8 percent in October. The October CPI was likely up by 0.2 percent as gasoline prices stabilized (to be reported on November 17), so workers’ real income was likely up sharply again in October. This bodes well for a strong holiday shopping season, as do rising consumer confidence, higher house and stock prices, and the $100 billion that households have “saved” at the gasoline station this year!

This very strong October jobs report proved that weaker job growth in August and September was not due to a significant slowing in the solid underlying trend of employment growth. Auto sales in October were 18.2 million units at an annual rate for a second straight month, and 2015 will be the strongest year for sales since 2000. The housing market is also improving, and construction spending more generally is growing at a double-digit pace. There are drags from slow overseas growth, the strong dollar and the downturn in energy production. But lower energy prices are a big net positive for the U.S., supporting consumer spending. PNC’s Small Business Outlook survey also found greater optimism about the economy in the second half of 2015, with plans for more hiring and bigger wage hikes.

In summary, the 271,000 rise in October payroll jobs, along with a 12,000 upward revision to job growth in August and September combined, big rebounds in household employment and the labor force, and a big jump in average hourly wages, constitute a super-strong jobs report for October. This greatly increases the probability of an increase in the fed funds rate when the Federal Open Market Committee next meets in mid-December, consistent with the PNC interest rate forecast. Federal Reserve Chair Janet Yellen will testify before Congress on December 3, and she is likely to clearly signal that a 25 basis point increase in the federal funds rate is coming at the December 15-16 FOMC meeting. She will also emphasize that the upward path of the funds rate will be shallow (but persistent) over the next several years.

According to the federal funds futures market the probability of a December rate hike is now 70 percent, up from 50 percent before the October jobs report, and it will move even higher as other solid data for October, such as retail

![Chart 1: Unemployment, Underemployment Rates Both Returning to Pre-Recession Levels](chart_source.png)

Chart source: Bureau of Labor Statistics
November 6, 2015

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sales and housing starts and sales, are released ahead of Yellen’s December 3 testimony.

Stock prices ended up flat for the day, after falling after the release of the jobs report. The interest rate on the 10-year Treasury rose 9 basis points to 2.32 percent. The U.S. dollar strengthened more than 1 percent against other major currencies on increased expectations for a near-term federal funds rate hike. The price of a barrel of West Texas Intermediate crude oil fell by about 75 cents to $44.46.

Nonfarm business productivity rose 1.6 percent at an annual rate in the third quarter, according to the preliminary estimate from the Bureau of Labor Statistics, after a 3.5 percent increase in the second quarter. However, productivity was only up 0.4 percent in the third quarter from one year earlier, with big declines in the fourth quarter of 2014 and the first quarter of this year.

Nonfarm business output rose 1.2 percent in the third quarter, with hours worked down a surprising 0.5 percent, the first decline in six years. With compensation costs up 3.0 percent for the quarter, unit labor costs rose 1.6 percent; they were up 2.0 percent on a year-ago basis.

Productivity growth in the third quarter was much stronger than the consensus expectation for a 0.5 percent increase, in large because of a decline in total hours worked. This is likely to be revised away, given solid job growth in the third quarter. As a result, productivity growth is likely to be revised lower, and unit labor cost growth revised higher, when updated data are released next month.

Underlying productivity growth is running a little south of 1 percent. With GDP growing at about 2.5 percent per annum, businesses need to hire workers to keep up with stronger demand. This will support continued solid job growth of around 175,000 per month through 2016.

Chart 2: Wage Growth Has Accelerated to Strongest Pace Since 2009

Chart source: Bureau of Labor Statistics

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