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US Economics | North America

Employment report preview: Solid September

We forecast payrolls rose 160k, average hourly earnings rose 0.3%, and the unemployment rate stalled again at 4.2%. September payrolls are solid, August is revised up, and there's no sign that July weakness persists.

MORGAN STANLEY & CO. LLC

Sam D Coffin

Economist

Sam.Coffin@morganstanley.com

+1 212 761-4630

Diego Anzoategui

Economist

Diego.Anzoategui@morganstanley.com

+1 212 761-8573

Sarah A Wolfe

Economist

Sarah.Wolfe@morganstanley.com

+1 212 761-0857

Lenoy Dujon

US/Canada Economist

Lenoy.Dujon@morganstanley.com

+1 212 761-2779

Key Takeaways

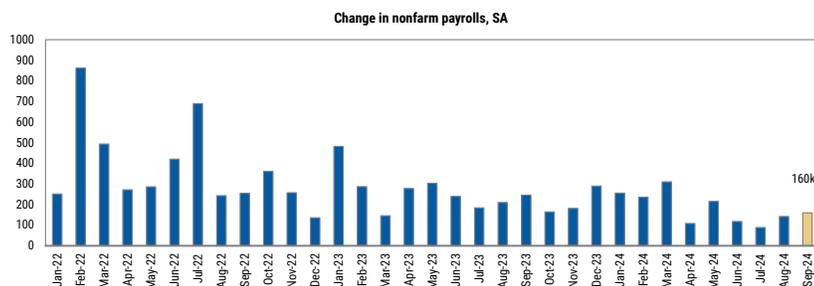
- Payrolls boosted by acceleration in manufacturing and across services, perhaps held back by up to 10k in hotel strikers.
- August payrolls are likely to be revised up.
- The unemployment rate stays at 4.2% (on the cusp of 4.3%)—no further cooling since July.
- Payrolls > 150k would suggest a 25bp rate cut in November. Payrolls < 100k suggest 50bp. In between 100k and 150k? it depends.

Exhibit 1: September employment forecast details

Employment Report: Forecasts & Recent History						
	Est. Sep-24	Consensus Sep-24	Aug-24	Jul-24	Actual 3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	160	140	142	89	116	246
Private payrolls	140	120	118	74	96	196
Unemployment rate (%)	4.2	4.2	4.2	4.3	4.0	3.8
Labor force participation rate (%)	62.7		62.7	62.7	62.7	62.8
Average weekly hours	34.3	34.3	34.3	34.2	34.3	34.4
Average hourly earnings (%M)	0.3	0.3	0.4	0.2	0.3	0.3
%Y	3.8	3.7	3.8	3.6	3.8	4.5

Source: Bureau of Labor Statistics, (BLS), Bloomberg, Morgan Stanley Research forecasts

Exhibit 2: We project payrolls rose 160k in September: continuing to reaccelerate but not as strong as earlier in the year



Source: BLS, Morgan Stanley Research forecasts

For important disclosures, refer to the Disclosure Section, located at the end of this report.

September Payrolls

Employment indicators have been uneven: Initial and continuing claims for unemployment insurance have fallen back to May levels—levels last seen before the serious slowdown in payrolls. But household sentiment about the labor market has deteriorated, with the Conference Board measure declining to 2017 levels. In 2017, payrolls averaged 176k per month, close to this year's average 184k, so the Confidence Board index is not particularly weak despite its decline. We think that, on net, recent indicators signal some further, gradual improvement from the July low in payrolls growth ([Exhibit 4](#), [Exhibit 5](#)).

Job openings will also matter. They've been normalizing, falling rapidly, just about to 2019 levels. Stabilization would be a positive signal for labor demand. Job openings are reported on Tuesday.

The 160k that we forecast for payrolls compares to a 142k reading for August. [There's been a strong tendency for upward revision to August payrolls](#)—we expect them to be revised up by 25k.

Our forecast for September ([Exhibit 3](#)) reflects slightly faster gains across most services and goods payrolls rising at about the same pace as in the prior month. In goods, construction slows after a booming August; manufacturing rebounds after an August decline. On net, the 10k rise is in line with August and 5k below the quarter-to-date average. Services payrolls, +130k are above August's 108k, and about in line with their 2Q average. Relative to August, we expect less weakness in retail (sales have been strong), a rebound in health services employment (after softening in July), but some slowing in leisure after an outsized rise.

Up to 10k hotel workers were newly on strike during the payroll survey period for September—though they aren't shown in the BLS strike report for September. The Boeing strike (~33k) started too late to affect September payrolls. October payrolls could be held back by the Boeing strike, the potential port strike (~40k), and some effects of Hurricane Helene.

Our 0.3% forecast for average hourly earnings is about in line with recent trend and the 12-month pace stalls at 3.8%. We also expect no change in the workweek.

While labor demand has slowed, we do not believe that it is weakening sharply. The rebound in the workweek in August after the July interruptions to activity was encouraging, and aggregate payroll earnings have barely slowed. So far in 3Q, they're rising at a 4% annual rate from 2Q, little slower than their 5% pace of the past 12 months.

September Unemployment Rate

We expect the unemployment rate stalls at 4.2% after 4.2% in August and the rise to 4.3% in July. There's been a bit more labor market churn in recent months: larger flows from employment into unemployment; but also larger flows from unemployment back into employment. Total flows out of employment haven't risen particularly ([Exhibit 11](#), [Exhibit 12](#), [Exhibit 13](#)). This complements [work we did recently that showed that the contribution of layoffs to the rise in unemployment](#) is smaller over the past year than in the past two periods of unemployment rate increases.

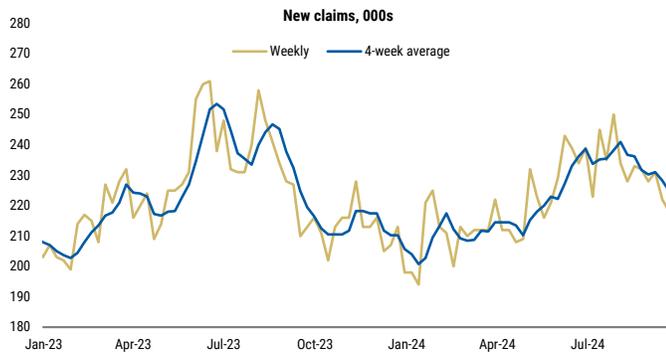
We expect no further increase in the labor force participation rate in September. The labor force participation rate has been moving sideways for about a year (notwithstanding its rise in July), perhaps held back somewhat by recent immigration. A recent piece by Atlanta Fed researchers estimates low participation rates for recent immigrants during their first couple of years in the US.¹

Exhibit 3: Sectoral breakdown of payroll gains and our September forecast

monthly change, 000s	Average monthly change			Jun	Jul	Aug	Sep est.
	4Q 23	1Q24	2Q24				
Nonfarm	212	267	147	118	89	142	160
Private	155	203	137	97	74	118	140
Goods-producing	20	26	4	2	20	10	10
Mining and logging	-1	0	-3	0	1	0	0
Construction	18	29	9	18	13	34	15
Manufacturing	2	-3	-2	-16	6	-24	-5
Motor veh.	3	1	3	5	6	-6	
Service-producing	135	177	133	95	54	108	130
Wholesale	9	0	4	6	7	5	5
Retail	-3	20	1	-20	-3	-11	3
Trans. & warehousing	-12	11	19	11	6	8	14
Utilities	2	1	1	1	0	0	0
Information	1	2	-1	0	-15	-7	0
Financial	3	-2	7	13	-1	11	7
Professional & business services	6	24	9	-11	-13	8	15
Temp help	-19	-3	-13	-30	-18	-3	
Education	5	5	3	14	-4	3	3
Health care, social assistance	85	81	80	69	59	44	65
Leisure & hospitality	36	26	4	4	24	46	15
Other services	3	11	6	8	-5	1	3
Government	58	64	10	21	15	24	20
Federal	5	11	1	2	0	1	
State and local	52	54	9	19	15	23	

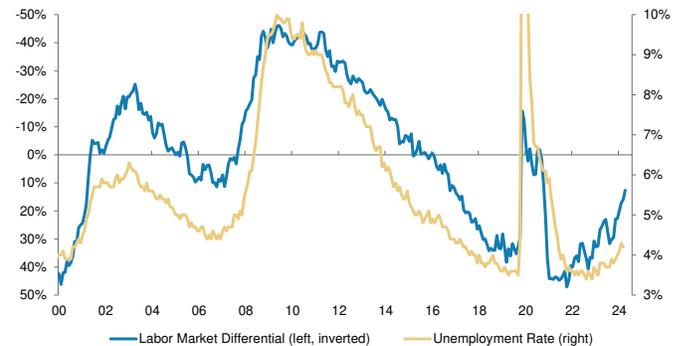
Source: BLS, Morgan Stanley Research forecasts

Exhibit 4: Initial jobless claims are low and falling



Source: Department of Labor, Morgan Stanley Research

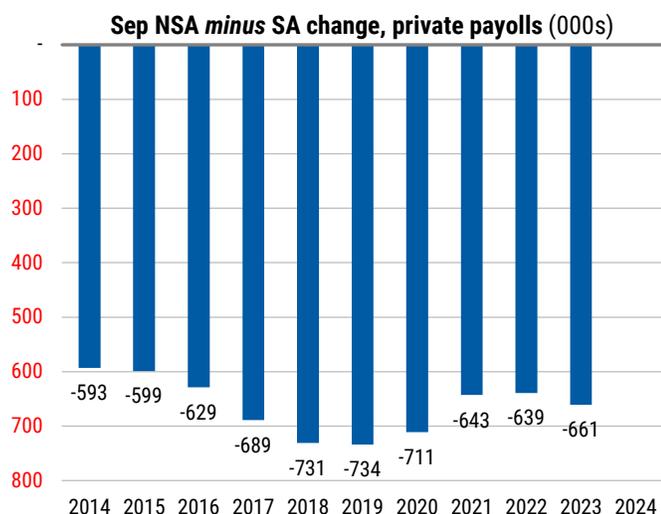
Exhibit 5: However, households' assessments of the labor market deteriorated in September



Source: Department of Labor, Morgan Stanley Research

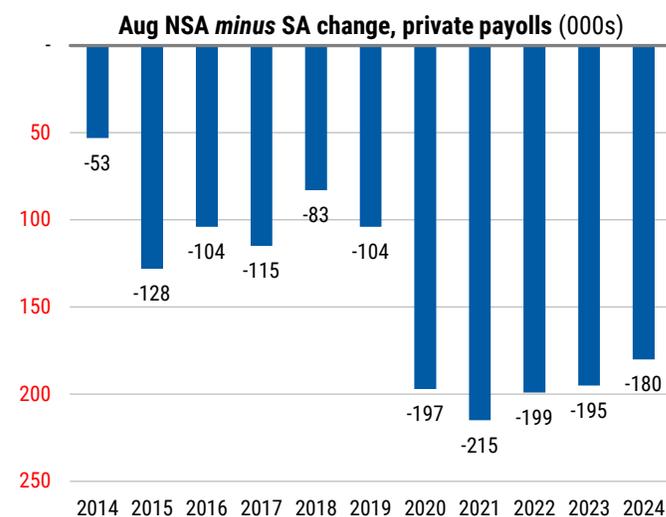
1. <https://www.atlantafed.org/blogs/macroblog/2024/08/19/labor-supply-of-newly-immigrated-workers>

Exhibit 6: There is no obvious distortion from recent years' September seasonal factors. NSA private payrolls tend to fall sharply.



Source: BLS, Morgan Stanley Research

Exhibit 7: For August, the typical declines in NSA private payrolls have gotten larger since the pandemic.



Source: BLS, Morgan Stanley Research

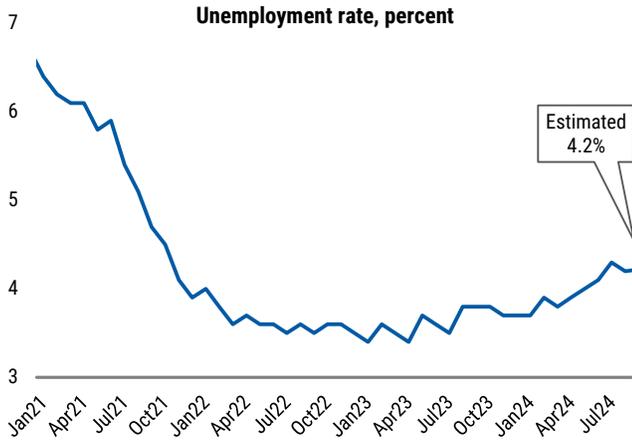
Exhibit 8:

Teacher payrolls tends to rise NSA in September, offsetting large declines across most sectors of private-sector payrolls

	September	August hurdle	August NSA	August SA
Local Government Education	789	296	301	5
State Government Education	355	73	70	-3
Educational Services	257	28	31	3
Transportation & Warehousing	95	13	21	8
Federal	0	-5	-4	1
Utilities	-3	-3	-3	0
Mining & Logging	-5	3	3	0
State Government, excluding Education	-16	2	7	5
Professional & Business Services	-19	13	21	8
Wholesale Trade	-21	-13	-8	5
Information	-38	4	-3	-7
Health Care & Social Assistance	-38	19	63	44
Manufacturing	-56	-6	-30	-24
Financial Activities	-58	-17	-6	11
Construction	-61	0	34	34
Other Services	-64	-30	-29	1
Retail Trade	-108	-48	-59	-11
Local Government, excluding Education	-173	-65	-48	17
Leisure & Hospitality	-531	-143	-97	46
Total	309	122	263	142

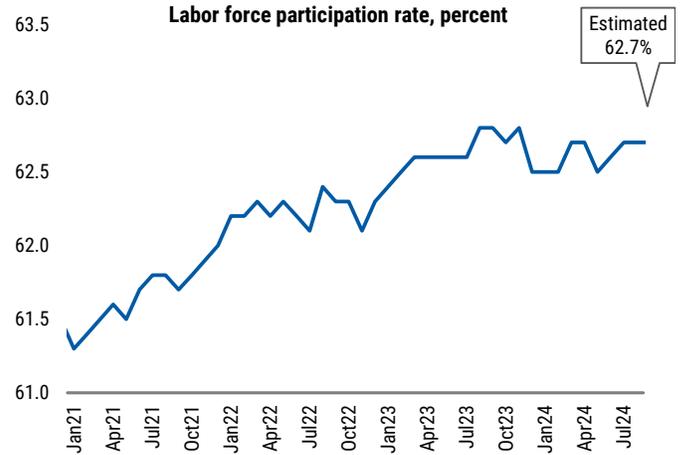
Source: BLS, Morgan Stanley Research

Exhibit 9: We forecast the unemployment rate slips to 4.2%



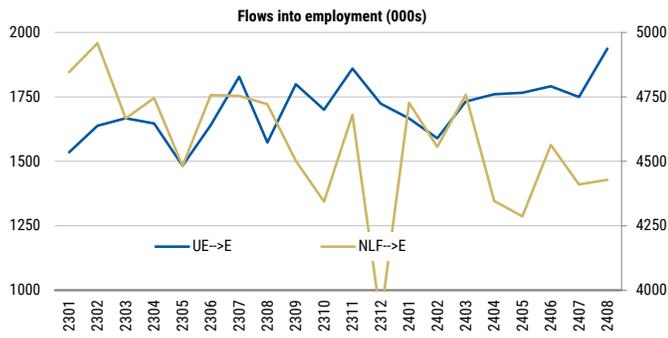
Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 10: We expect labor force participation remains at 62.7%



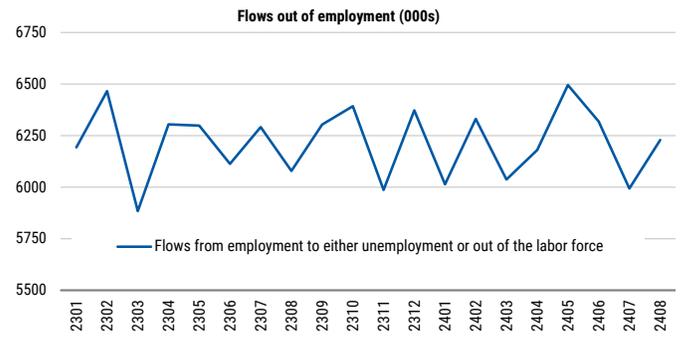
Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 11: A larger share of flows out of employment is staying in the labor market



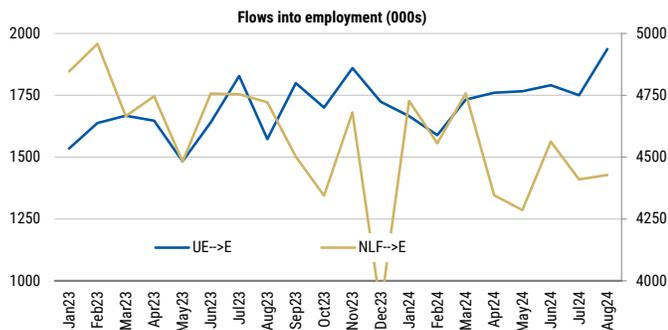
Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 12: There has been little change in the total of those two outflows from employment



Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 13: Flows into employment from unemployment also have picked up



Source: Bureau of Labor Statistics, Morgan Stanley Research

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