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US Economics | North America

Employment Report Preview: Rebound

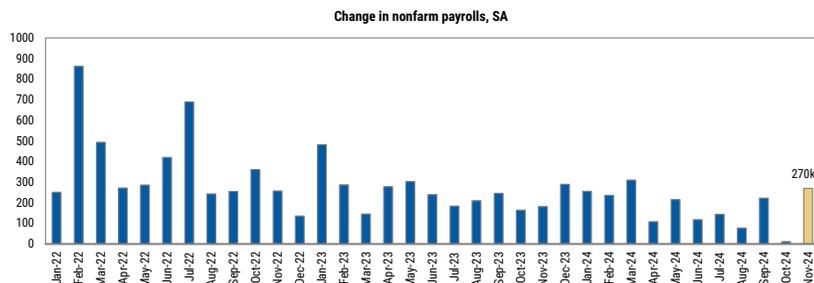
Our 270k forecast for November payrolls includes +100k from strike- and storm-affected employment and a stronger underlying pace than in recent months. We also expect upward revisions. The UE rate inches up to 4.2% and AHE rises 0.3%.

Exhibit 1: Employment forecast details

	Est.		Consensus		Actual	
	Nov-24	Nov-24	Oct-24	Sep-24	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	270	175	12	223	104	182
Private payrolls	240		-28	192	67	152
Unemployment rate (%)	4.2	4.1	4.1	4.1	4.2	3.7
Labor force participation rate (%)	62.7		62.6	62.7	62.7	62.8
Average weekly hours	34.3		34.3	34.3	34.3	34.4
Average hourly earnings (%M)	0.3		0.4	0.3	0.4	0.4
%Y	3.9		4.0	3.9	3.9	4.3

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

Exhibit 2: We project payrolls rose 270k in November, boosted by the return of 40k in strikers and 60k in storm-affected employment.



Source: BLS, Morgan Stanley Research forecasts

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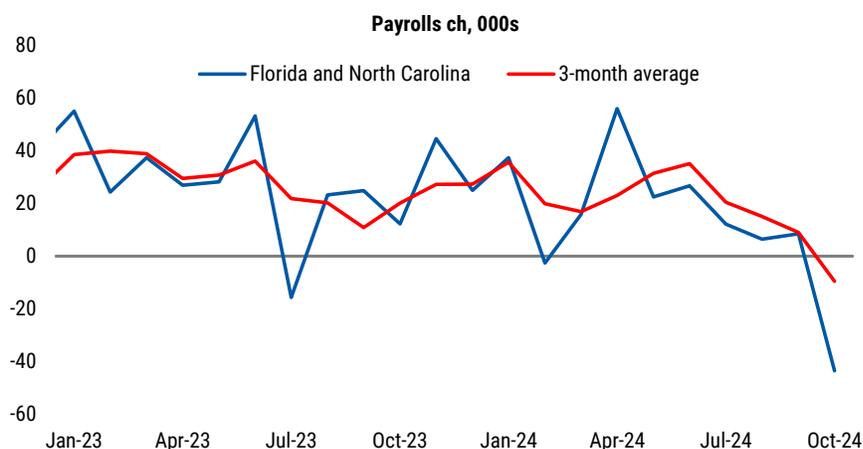
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Payrolls Forecast

Our 270k forecast for October payrolls reflects 40k in returning strikers, 60k in returning hurricane-affected workers, and a somewhat stronger underlying pace than in recent months. Holiday hiring plans look strong. The late timing of Thanksgiving this year may be a slight boost. Other labor market indicators have been inconsistent, with falling new claims (low layoffs) but higher continuing claims (slower re-employment, or more eligible claimants). We also expect noticeable upward revision to the past two months: a net 50k in upward revisions.

Hurricanes appear to have subtracted 60k from payrolls in October. Payrolls fell 38k in Florida and 6k in North Carolina. Payrolls in those two states had been rising a total of about 15k per month before the storms. We expect those workers' return in November.

Exhibit 3: Payrolls fell 38k in Florida and 6k in North Carolina—they appear to have subtracted about 60k from October payrolls



Source: BLS, Morgan Stanley Research

Strike resolutions at Boeing (33k), Textron (5k), and some hotels (2k) add another 40k to November payrolls.

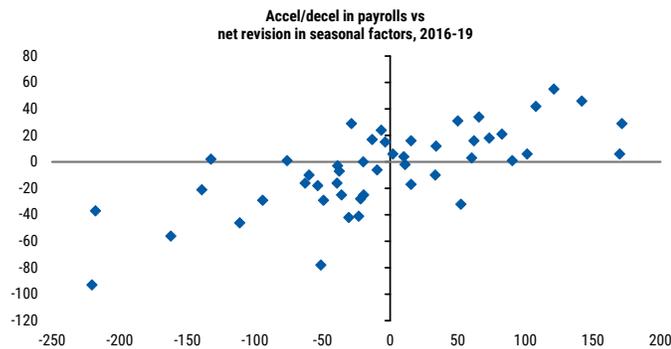
Holiday hiring plans look strong. Retailers and transport companies appear to be hiring in anticipation of strong sales volumes. In the two months through October, retail hiring plans of 534k were 96k higher than a year earlier. Transportation hiring plans, at 126k, were 26k above 2023 and 2022.

Seasonal factors may also be a slight boost. Thanksgiving swings from November 23 last year to November 28 this year. On similar calendar-timing swings in 2013 and 2019, payrolls were 12k and 55k above trend, although in 2002, they came in 1k below trend. There are few points of comparison, but they have tended toward an upward bias.

We also expect upward revision to September and October payrolls of about 50k in total. Last month's net downward revisions to August-September payrolls probably exaggerated weakness. Decelerations in payrolls like October's tend to be associated with downward revision to the prior two months via less-supportive seasonal factors.

Between 2016 and 2019, on average, 25% of the swing in payrolls was mimicked in downward revision via the seasonal factors of the prior couple months: A 100k slowdown in payrolls with respect to the prior three-month average tended to be matched by a 25k downward revision to the prior two months via seasonal factors. Since 2022, the effect has been even larger: a 100k slowdown in payrolls tended to be matched with 41k in downward revision. With exaggerated re-acceleration in payrolls in November, we also expect solid upward revision.

Exhibit 4: Month-to-month slowdowns in payrolls tend to be associated with downward revision to prior months

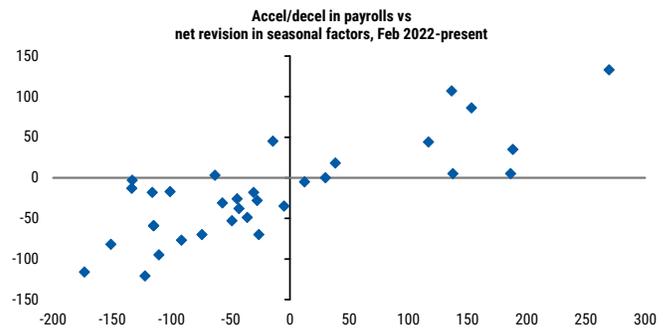


Source: BLS, Morgan Stanley Research

Acceleration in payrolls: Current month payrolls minus the average of the prior three months that was reported a month earlier.

Net revision in seasonal factors: Contribution of seasonal factor revision to the net revision in payrolls.

Exhibit 5: Since the pandemic, there have tended to be even sharper downward revisions as payrolls slowed



Source: BLS, Morgan Stanley Research

Hours and earnings

We suspect that average hourly earnings were biased up slightly last month by the interruption to hours worked and forecast a return to 0.3% m/m gains and a slowdown to 3.9% from 4.0% on a 12-month basis.

Unemployment Rate and Labor Force Participation

The September-October hurricanes likely depressed labor force participation slightly and held down the unemployment rate. In turn, we expect both rise a tenth to 62.7% and 4.2%.

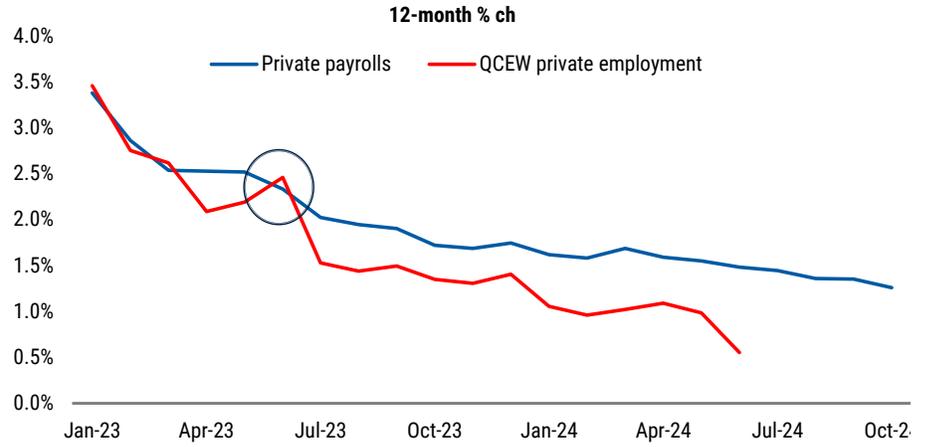
2Q QCEW

The 2Q Census of Employment and Wages (QCEW) reported further slowing in employment growth in 2Q. We believe that slowdown is already reflected in payrolls.

Private payrolls slowed from 1.72% growth in the 12 months through March 2024 to 1.47% in the 12 months through June: 0.25 pct pt in slowing. The QCEW estimate slowed from 1.02% growth in the 12 months through March 2024 to 0.55% in the 12 months through June: a larger, 0.47 pct pt deceleration. However, the QCEW had a hard comparison in June 2024. In June 2023 it had spiked, then immediately reversed, with no equivalent swing in payrolls (see chart). Adjusted for that temporary swing in QCEW, the two series suggest

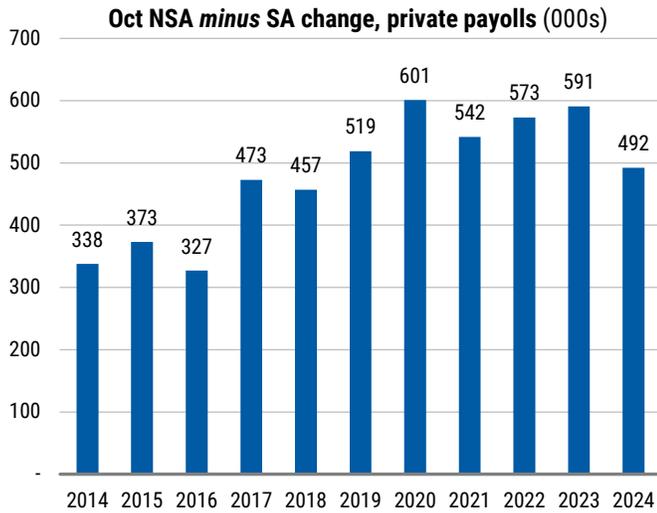
similar deceleration since March.

Exhibit 6: QCEW and private payrolls



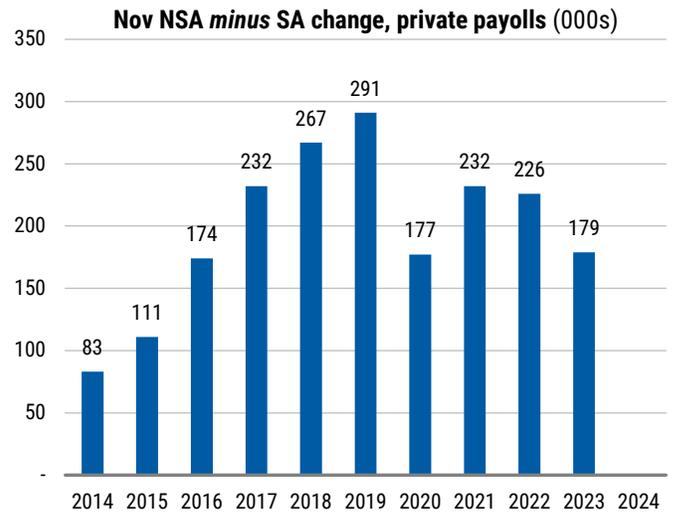
Source: BLS, Morgan Stanley Research

Exhibit 7: Seasonal factors subtracted more from NSA private payrolls in October than they did prepandemic but less than in recent years



Source: BLS, Morgan Stanley Research

Exhibit 8: They subtract somewhat less from November payrolls than they did prepandemic



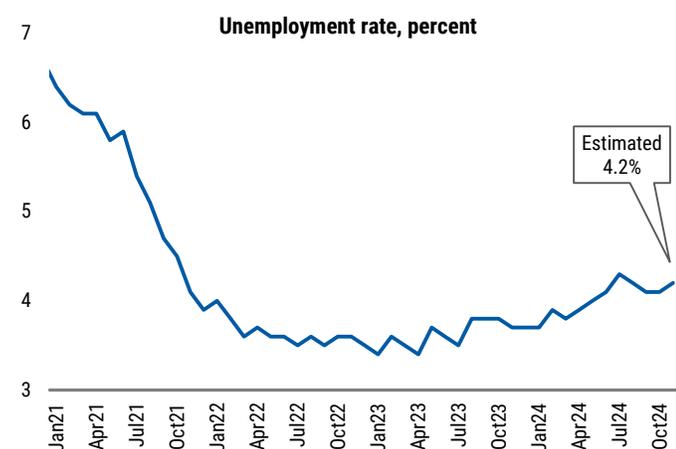
Source: BLS, Morgan Stanley Research

Exhibit 9: Industry breakdown of payrolls, and our November forecast

monthly change, 000s	Average monthly change				Aug	Sep	Oct	Nov est
	1Q24	2Q24	3Q24					
Nonfarm	267	147	148		78	223	12	270
Private	203	137	109		37	192	-28	240
Goods-producing	26	4	15		2	23	-37	68
Mining and logging	0	-3	1		0	2	1	0
Construction	29	9	23		28	27	8	23
Manufacturing	-3	-2	-9		-26	-6	-46	45
Motor veh.	1	3	-5		-16	-4	-6	
Service-producing	177	133	94		35	169	9	172
Wholesale	0	4	6		7	6	10	6
Retail	20	1	-1		-15	15	-6	11
Trans. & warehousing	11	19	4		11	3	-4	9
Utilities	1	1	1		0	3	-2	2
Information	2	-1	-7		-8	3	3	0
Financial	-2	7	2		7	4	0	2
Professional & business services	24	9	-20		-47	-9	-47	50
Temp help	-3	-13	-21		-23	-20	-49	
Education	5	3	10		12	14	6	7
Health care, social assistance	81	80	66		55	80	51	50
Leisure & hospitality	26	4	29		9	40	-4	30
Other services	11	6	3		4	9	1	5
Government	64	10	39		41	31	40	30
Federal	11	1	2		1	4	1	
State and local	54	9	37		40	27	39	

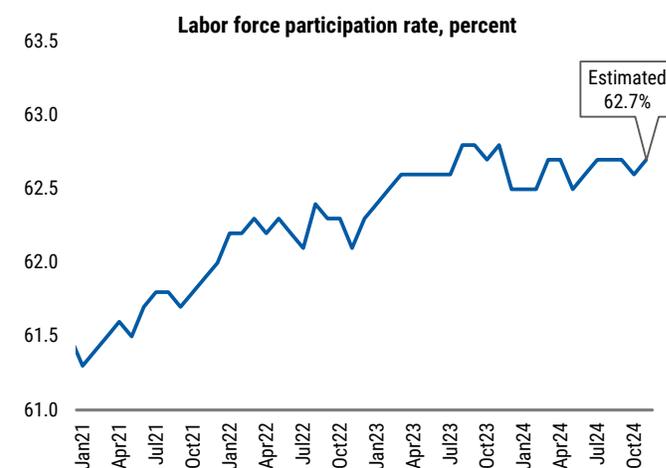
Source: BLS, Morgan Stanley Research forecasts

Exhibit 10: We forecast the unemployment rate increases a tenth to 4.2%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 11: We expect labor force participation increases a tenth to 62.7%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

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