

U.S. Data Review

- Employment: restrained by special factors; fundamentally strong
- ISM: sub-50 for the third consecutive month

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The Labor Market

Employment growth in October was strong. The published headline figure seemed unimpressive at 128,000, but the strike at General Motors restrained this total by 46,000. (The auto industry showed a payroll decline of 42,000, but job growth elsewhere apparently offset part of the strike effect). In addition, employment in the federal government was constrained by the loss of 20,000 census-related jobs. Without these special factors, job growth would have totaled 194,000. Not only was October strong, but results in the prior two months were revised upward by 95,000. All told, a striking report for job growth.

The industry breakdown did not suggest any special factors on the upside. Rather, firm job growth was driven by several areas posting results better than the recent average. The mining industry, which had been trimming payrolls, added slightly in October. The manufacturing sector, which had added an average of only 2,000 in the prior seven months, boosted payrolls by 10,000 (strike adjusted). Job growth in the retail and leisure sectors was stronger than the recent norm, but not by enough to suspect special factors or random volatility. Other areas also showed slight improvement. The business service and miscellaneous service categories were lighter than normal, but these shortfalls did not matter much in light of firm results elsewhere.

The unemployment rate rose 0.1 percentage point to 3.6 percent, but it was a bullish increase. That is, the change reflected a solid increase in the size of the labor force (325,000) that more than offset firm employment growth as measured by the household survey (241,000). Moreover, the change in the rate was modest if calculated with more precision (up 0.045 percentage point; 3.562 percent versus 3.517 percent). The broad unemployment rate rose 0.1 percentage point to 7.0 percent, reflecting the influence of the narrow jobless rate as well as an increase in the number of involuntary part-time workers. The number of marginally attached workers fell slightly and provided a partial offset.

Employment Report

	Nonfarm Payrolls* (Chg., Thousands)	Private-Sector Payrolls (Chg., Thousands)	Unemp. Rate (Percent)	Broad Unemp. Rate (Percent)	Household Emp. (Chg., Thousands)	Labor Force (Chg., Thousands)	Emp.- Population Ratio (Pct.)	Median Duration of Unemp. (Weeks)	Part-Time Econ. Reasons (Thou.)	Avg. Hourly Earnings % Chg.	Avg. Workweek (Hours)
Annual Average											
2017	179	172	4.4	8.5	149	71	60.1	10.1	5,254	0.2	34.4
2018	223	215	3.9	7.7	240	217	60.4	9.3	4,780	0.3	34.5
2019	167	152	3.7	7.2	157	112	60.7	9.2	4,447	0.2	34.4
Qtrly. Average											
18-Q4	233	236	3.8	7.6	292	395	60.6	9.2	4,689	0.3	34.5
19-Q1	174	165	3.9	7.6	-66	-93	60.7	9.3	4,652	0.2	34.5
19-Q2	152	146	3.6	7.2	86	7	60.6	9.4	4,452	0.2	34.4
19-Q3	188	151	3.6	7.0	421	353	60.9	9.1	4,238	0.3	34.4
2019 Monthly											
July	166	122	3.7	7.0	283	370	60.7	8.9	3,984	0.3	34.3
Aug.	219 (168)	163	3.7	7.2	590	571	60.9	8.9	4,381	0.4	34.4
Sept.	180 (136)	167	3.5	6.9	391	117	61.0	9.4	4,350	0.0	34.4
Oct.	128	131	3.6	7.0	241	325	61.0	9.3	4,438	0.2	34.4

* Preliminary readings on nonfarm payrolls are shown in parenthesis.

Source: Bureau of Labor Statistics via Haver Analytics

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Average hourly earnings were mildly disappointing, as they rose only 0.2 percent after registering no change in the prior month. Year-over-growth of 3.0 percent matched the increase in September, but it trailed all other readings for 2019 (peak of 3.4 percent in February). This measure includes managerial and supervisory workers, and the wages or salaries of these individuals seem to be responsible for the sluggishness in the past two months. Wages of production workers have been firmer (up 0.2 percent in October after a gain of 0.3 percent in September). Year-over-year growth for the wages of production workers has been steady in the past four months at 3.5 percent.

ISM Manufacturing Index

The ISM manufacturing index improved in October, but the change was modest at 0.5 percentage point and the level of the index remained low (48.3 percent). October marked the third consecutive month of sub-50 readings.

The new orders component accounted for much of the increase in the headline index, as it rose 1.8 percentage points (chart). New orders for export were especially strong with a jump of 9.4 percentage points, an encouraging change in light of the trade war. These increases were welcome, but the levels of the order indexes remained low (49.1 for total orders and 50.4 for export orders). Although new orders improved, production did not follow this lead, as this component fell 1.1 percentage points to 46.2 percent. Like the headline measure, the production component was below 50 percent for the third consecutive month. The employment index rose 1.4 percentage points, but it too was below 50 percent for the third consecutive month (47.7 percent).

The inventory index rose 2.0 percentage points, but we view this component as less significant than orders, production, and employment. Similarly, we do not put much weight on the supplier delivery component, which fell 1.6 percentage points to 49.5 percent.

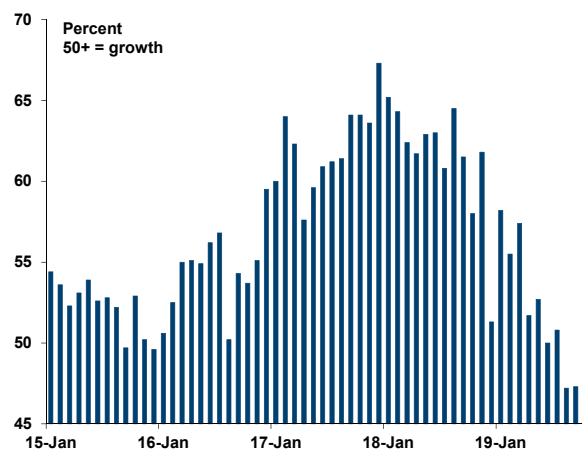
ISM Manufacturing -- Monthly Indexes

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
ISM Mfg. Composite	51.7	51.2	49.1	47.8	48.3
New orders	50.0	50.8	47.2	47.3	49.1
Production	54.1	50.8	49.5	47.3	46.2
Employment	54.5	51.7	47.4	46.3	47.7
Supplier deliveries	50.7	53.3	51.4	51.1	49.5
Inventories	49.1	49.5	49.9	46.9	48.9
Prices paid*	47.9	45.1	46.0	49.7	45.5

* The prices paid index is not seasonally adjusted. The measure is not part of the ISM manufacturing composite index.

Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics