

U.S. job growth rises moderately in September; unemployment rate falls to 3.5 per cent

By Lucia Mutikani

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The U.S. unemployment rate dropped to near a 50-year low of 3.5% in September, with job growth increasing moderately, suggesting the slowing economy could avoid a recession for now despite trade tensions that are hammering manufacturing.

The Labor Department's closely watched monthly employment report on Friday, however, contained reminders that the risks to the longest economic expansion on record remained tilted to the downside. Wage growth stagnated and manufacturing payrolls declined for the first time in six months. The retail and utilities sectors also continued to shed jobs.

The report followed a string of weak economic reports, including a plunge in manufacturing activity to more than a 10-year low in September and a sharp slowdown in services industry growth to levels last seen in 2016, that heightened fears the economy was flirting with a recession.

"The unemployment rate usually rises ahead of a recession, so a fresh decline pushes out the timeline for any potential recession into late 2020 at the earliest," said Josh Wright, chief economist at iCIMS in New York.

The two-tenths of a percentage point drop in the unemployment rate from 3.7% in August pushed it to its lowest level since December 1969. The jobless rate, which had been stuck at 3.7% for three straight months, declined even as 117,000 people entered the labour force last month.

Nonfarm payrolls increased by 136,000 jobs last month, the government's survey of establishments showed. The economy created 45,000 more jobs in July and August than previously estimated. Economists polled by

Reuters had forecast payrolls would increase by 145,000 jobs in September.

September's job gains were below the monthly average of 161,000 this year, but still above the roughly 100,000 needed each month to keep up with growth in the working-age population. The smaller household survey from which the unemployment rate is derived showed a jump of 391,000 in employment in September.

With signs that the Trump administration's 15-month trade war with China is spilling over to the broader economy, continued labour market strength is a critical buffer against an economic downturn. The trade war has eroded business confidence, sinking investment and manufacturing.

There is also political uncertainty in Washington after the Democratic-controlled U.S. House of Representatives launched an impeachment inquiry against President Donald Trump over accusations he pressed Ukrainian President Volodymyr Zelenskiy to investigate former U.S. Vice President Joe Biden, a leading candidate for the 2020 Democratic presidential nomination.

These factors, together with benign wage inflation, are likely to prompt the Federal Reserve to cut interest rates at least one more time this year, economists said. The U.S. central bank cut rates last month after reducing borrowing costs in July for the first time since 2008, to keep the economic expansion, now in its 11th year, on track.

Fed Chair Jerome Powell reiterated on Friday that the economy was "in a good place," adding that "our job is to keep it there as long as possible."

The dollar was little changed against a basket of currencies. Prices of U.S. Treasuries rose marginally. Stocks on Wall Street were trading higher.

Strong government hiring

“We continue to expect the Fed to cut its target interest rate later this month,” said Michael Feroli, an economist at JPMorgan in New York. “We believe it would have taken a much stronger number to convince Fed leadership that they have already taken out enough insurance against downside risks.”

Economic growth estimates for the third quarter range from as low as a 1.3% annualized rate to as high as a 1.9% pace. The economy grew at a 2.0% pace in the second quarter, slowing from a 3.1% rate in the January-March period.

Slower growth was reinforced by a report from the Commerce Department on Friday that showed the U.S. trade deficit widened 1.6% to \$54.9 billion in August.

A broader measure of unemployment, which includes people who want to work but have given up searching and those working part-time because they cannot find full-time employment, declined to 6.9% last month, the lowest level since December 2000, from 7.2% in August.

Despite the tight labour market, average hourly earnings were unchanged last month after advancing 0.4% in August. That lowered the annual increase in wages to 2.9% from 3.2% in August. The average workweek was unchanged at 34.4 hours.

Some economists believe wage growth is stalling because companies are hiring inexperienced workers in the face of labour shortages. Others blame the slowdown on ebbing demand for workers.

“With demand for labour softening and many companies contending with higher input costs as the trade war lingers and broadens, we do not expect to see any meaningful strengthening in wage growth in the coming months,” said Sarah House, a senior economist at Wells Fargo Securities in Charlotte, North Carolina.

Hiring is slowing across all sectors, with the exception of government, which is being boosted by state and local government recruitment. Private payrolls increased by 114,000 jobs in September after rising by 122,000 in August.

The three-month average gain in private employment fell to 119,000, the smallest since July 2012, from 135,000 in August.

Manufacturing shed 2,000 jobs last month, the first decline in factory payrolls since March, after a gain of 2,000 jobs in August. Manufacturing has ironically borne the brunt of the Trump administration’s trade war, which the White House has argued is intended to boost the sector.

Last month’s decline in manufacturing payrolls was led by the automotive sector, which lost 4,100 jobs. Further losses are likely if a strike by General Motors workers continues.

Construction employment increased by 7,000 jobs after rising by 4,000 in August. Retail payrolls fell by 11,400 jobs, marking an eighth straight monthly drop.

Government employment increased by 22,000 jobs in September after surging by 46,000 in August. Hiring was boosted by state and local governments. Only 1,000 workers were hired last month for the 2020 Census. Government payrolls have increased by 147,000 over the year, driven by local governments.