ECONOMIC ANALYSIS

Unemployment Rate Hits 5.8% in October

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Labor market conditions continue to improve gradually, with nonfarm payrolls up 214K in October. This reflects a slight deceleration from September's 256K (revised up from 248K) but the ninth consecutive month of +200K payrolls. As expected, August's report was revised up again, to 203K from 180K in the previous report and only 142K in the initial estimate released back in early September. Private payrolls in October increased 209K (with manufacturing and construction up 15K and 12K, respectively), while the public side increased 5K due to local government hiring. Other positive data in the establishment survey include an uptick in average hourly earnings, which increased 0.2% for the month following a modest decline in September.

Data from the household survey appear to be more encouraging compared to prior months. Most notably, the unemployment rate declined to 5.8% alongside a simultaneous gain in the participation rate – the first such occurrence since June and confirming the strength of ongoing employment growth. The employment-to-population ratio also increased to 59.2% after remaining flat at 59.0% for four consecutive months. According to the CPS labor force status flows, the number of unemployed individuals finding employment increased 1.6% in both September and October, while the number of unemployed dropping out of the labor force declined during that same period. This is certainly a positive sign, yet it is still difficult to estimate how much slack there is in the labor market. Furthermore, structural unemployment remains a concern, as both long-term unemployment and the number of discouraged workers remain elevated. Overall, our baseline scenario remains mostly unchanged, maintaining our expectations for gradual improvements in the next year. For 2014, we expect that the unemployment rate will average 6.2% while payroll growth reaches 1.8% for the year (up from 1.7% YoY growth in 2012 and 2013). Implications for monetary policy also remain consistent with our previous projections, with the Fed expected to hold off on the first rate hike until mid-2015.