CIO Memo

October 4, 2024

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Nonfarm payrolls: Wow!

Key takeaways

- The latest Nonfarm payrolls report delivered stronger-than-expected jobs figures for the month of September, with cumulative upward revisions seen for the previous two months.
- Payrolls increased by +254,000 in September, higher than the expected number of +140,000. The unemployment rate decreased to 4.1% whilst monthly wage growth came in +0.4%, bringing the annualized rate to +4.0%.
- Markets reacted positively to the strong labor market report and given the resilience of the labor market; the Fed may be more inclined to deliver a smaller 25bp rate cut during the November FOMC meeting.

1. What happened?

Today, the latest U.S. jobs report for September showed an increase of +254,000 versus an expected increase of +140,000, coming in above expectations. Alongside the latest jobs numbers, upward revisions were made to the previous two months of data, adding a total of +72,000 jobs to their respective periods.

The unemployment rate decreased to 4.1% from 4.2% with the number of unemployed persons at 6.8 million. The labor force participation rate remained at 62.7%, continuing to remain below pre-pandemic levels of 63.4%. Within the household survey, average hourly earnings came in at +0.4% MoM, on par with last month's gain. Average hours worked decreased slightly to 34.2 in September.

Payroll gains were seen across various sectors last month with healthcare seeing the most gains (+45,000) followed by government (+31,000). The healthcare industry averaged about +57,000 jobs gained per month over the last year and the gains in September marked a slowdown in hiring in the space. Similarly, social assistance gained +27,000 jobs in September, lesser than average monthly gain of +21,000 over the last 12 months. The construction industry also gained +25,000 jobs over the month. Similar to the month prior, job losses were seen in the manufacturing industry (-7,000). Employment in mining, quarrying, oil and gas extraction registered minor changes along with other industries such as financial activities and professional and business services.

Overall, the job gains in September (+254,000) were a notable increase from the average 12-month jobs gain (+203,000). Employment continued to trend up for healthcare, government and construction, albeit at a slower pace for healthcare compared to its yearly average.

2. How did markets react?

Investors reading of today's jobs reports appeared to be positive as the data reinforced that the Fed is on track to achieving the elusive 'soft landing'. At the time of writing, both the S&P 500 and NASDAQ were trading at +0.22% and +0.51% respectively. Yields moved higher across the curve with the 2-Year Treasury moving to 3.90% and the 10-Year Treasury to 3.96%.

After today's release of labor market report, Fed Fund Futures increased the probability of a 25bps rate cut during the November FOMC meeting which now stands at a 95.2% for a 25bps rate cut and 4.8% for a 50bps rate cut,

3. What does it mean for investors?

Today's report signaled that the U.S. labor market remains strong – the drop in unemployment rate along with the positive revisions seen for the July and August jobs numbers quell concerns of a weakening labor market that was beginning to emerge over the last couple of months. Notably, the labor force participation rate remained stable and average hourly earnings increased 4% over the past 12 months, which is higher than the rate of inflation (2.5%) over the same period. Job gains were broad-based across multiple sectors except for manufacturing which showed a decline in job gains. However, with the Fed having recently delivered its first 50bps rate cut during the September FOMC meeting and with improving new order numbers (the ISM index increased from 44.6 pts in August to 46.1 pts in September), manufacturing jobs may see some positive gains moving forward.

Earlier this week, the latest Job Openings and Labor Turnover Survey (JOLTS) reported an increase from 7.71 million jobs in July to 8.04 million jobs in August. Additionally, the ADP private payroll bounced back in September by adding +140,000 jobs after having registered the smallest job gain in August (+99,000) since 2021.

The Fed will continue to monitor upcoming datapoints to determine the size and time of the next rate cut. Given the unexpected strength of the September employment report, it is likely that the Fed may decide to deliver a smaller 25bps rate cut in the next meeting as opposed to a 50bps one.

The next key data point released will be September's CPI number (Oct 10th). If the September CPI print or its components come in softer, the probability of a 25bps rate cut during the November FOMC meeting go higher.

Today's labor report saw the U.S. economy add the most jobs in the past six months and signals that the labor market remains resilient. If the economy continues to remain strong, the Fed is likely to deliver a smaller 25bps rate cut in the next meeting.

Glossary

The consumer price index (CPI) measures the price of a basket of products and services that is based on the typical consumption of a private household.

The Fed funds rate is the interest rate at which depository institutions lend overnight to other depository institutions.

The Federal Reserve (Fed) is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

The Job Openings and Labour Turnover Survey (JOLTS) produces survey data on job openings, hires and separations over the previous month.

The NASDAQ index is a market-capitalization weighted index of around 3,000 equities listed on the Nasdaq exchange.

The Nonfarm payrolls is a monthly report that measures the change in people employed during the previous month, excluding the farming industry.

The ISM manufacturing index is a monthly economic indicator that measures the level of business activity in the US Manufacturing sector.

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Treasuries are bonds issued by the U.S. government.

USD is the currency code for the U.S. Dollar.

Historical Performance

Performance	10.04.2019 – 10.04.2020	10.04.2020 - 10.04.2021	10.04.2021 - 10.04.2022	10.04.2022 - 10.04.2023	10.04.2023 - 10.04.2024
S&P 500	15.6%	30.3%	-10.5%	14.4%	35.6%
NASDAQ	38.7%	28.7%	-21.6%	18.4%	36.1%
2-Year U.S. Treasury	-3.6%	-0.1%	-5.1%	1.5%	6.8%
10-Year U.S. Treasury	11.5%	-5.7%	-16.3%	-3.5%	-10.5%

Source: LSEG Datastream, Deutsche Bank AG. Data as of September 6, 2024.

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