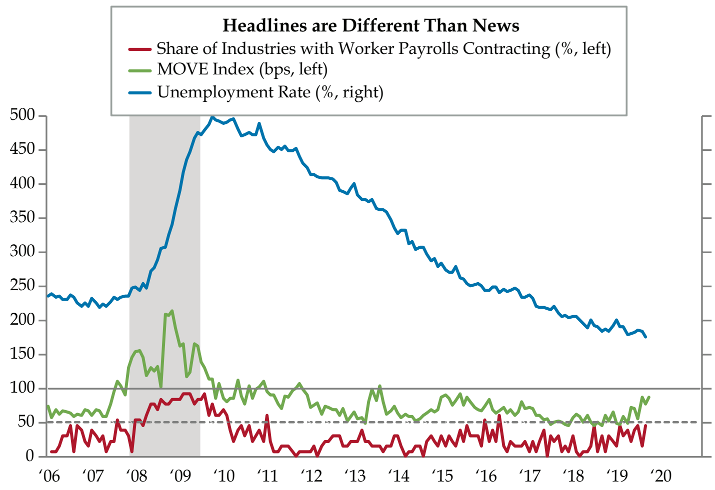
The Daily Feather

A Fork in the Labor Dam

VIPs

- While September's unemployment rate hit a 50-year low, the internals of the job report were less headline-worthy; 46% of industries saw contracting worker payrolls, worse than the 35% eight-month average which matches the eight-month stretch ending 2016's industrial recession
- High-paying job growth is at a three-year low and accounted for 56% of private sector job creation these past 7 months compared to 63% in the 19 preceding months, which featured stronger private sector gains; these dynamics explain falling average weekly earnings growth
- The specter of credit volatility is increasing with the MOVE index reaching a four-year high; the last time both the MOVE index crested 100 and the share of industries with contracting payrolls crossed 50 to the upside marked the beginning of the Great Recession



Source: Barclays, Bloomberg, BLS. Recession shaded.

Before Southfork, Texas' original kitsch, there was a historic glitch in South Fork, Pennsylvania. Originally constructed in 1852, the South Fork Dam was poorly conceived and suffered a breach a decade after opening. Things began to look up in 1879 when Benjamin Ruff purchased the dam promising to make the necessary repairs and in doing so, create a retreat for the wealthy – the South Fork Fishing and Hunting Club, an instant hit with the likes of Andrew Carnegie and Henry Frick. Alas, alterations that retained ample stores of fish and allowed carriage crossings conflicted with needed safety measures, rendering the dam vulnerable to a major storm.

The subsequent 2,209 fatalities associated with the Johnstown Flood of 1889 and collapse of the South Fork Dam remain to this day the second-worst man-made disaster in U.S. history. On Friday, Wall Street breathed a sigh of relief at avoiding its own feared calamity. As detailed in last Thursday's *Feather*, the overwhelming body of evidence of a turn in Services employment risked September's breaking the record 108-month run of expanding payrolls. But the dam held and the headlines of a "50-year low in the unemployment rate" bested every economist's wildest dreams.

We thank QI amiga Philippa Dunne of the Liscio Report for boiling down the simple math behind the surprise decline: "The labor force grew by 117,000, a bit over half as much as the population, leaving the participation rate unchanged. But unemployment fell by 275,000, taking the unemployment rate down to 3.5%, the lowest since December 1969."

As for any notion we were completely flat-footed by the fresh cycle low in the unemployment rate, we concur with Dunne's characterization of the overall report as being, "soggy on the payroll side and peppy on the household." (Semantics housekeeping note: the household survey produces the unemployment rate(s) while the payroll survey generates nonfarm payrolls).

We'll spare you any regurgitation of what you may have read over the weekend and dive past surface analytics. Observing the industrial weakness spreading to services sent us in search of corroborating evidence on the bad breadth in the job market.

To that end, the percentage of industries with contracting payrolls hit 46% in September. Stepping back, the last eight-month span saw an average 35% of industries contracting, matching the eight months through April 2016 as the industrial recession was ending. As much as we'd like to call this definitive, the best we can say is the current backdrop is as bad as it's been in the current expansion.

A separate gauge we track is high-paying job growth. In the seven months through September, high-paying jobs averaged 76,000, a three-year low and 56% of the 135,000 monthly jobs the private sector created. The 19 months that preceded this short stretch generated an average of 125,000 high-paying jobs, some 63% of the 198,000 jobs the private sector cranked out.

Not only is the private sector stepping back in absolute terms, we've seen the workforce composition degrade. This helps explain the decline in average weekly earnings from June's recent peak of 4.0% over the prior 12 months to September's 2.6% pace.

Backing these observations are Dunne's concerns on demographics. To that end, "workers aged 20 to 24 accounted for 13% of the job gains for the year ending in September, almost 40% more than their share of employment. Those aged 55 or higher accounted for 47% of the year's job gains, nearly twice their share of employment. But prime-aged workers, those aged 25 to 54, 64% of the workforce, accounted for just 37% of the gain."

And finally, we must acknowledge that the downward revision streak has been broken. August would have marked a sixth straight month of negative revisions to private payrolls. But just the opposite occurred; summer's last month saw an upward revision of 26,000. We'll be all eyes to see if that plus-sign is reversed when October's numbers hit.

In our last *Weekly Quill*, we asked what could go right to keep the current expansion alive including a relatively buoyant stock market. This Wednesday, we'll explore the conflicting message emitting from the bond market and what it implies.

By way of preview, at 88, the MOVE index, the VIX's bond market sibling, has marched to a four-year high. At the risk of depicting a graphical non-sequitur, note what happened the last time both the MOVE broke north of 100, and the share of industries with contracting payrolls crossed 50 to the upside.

The rising risk of the first double-Rubicon crossing of the current expansion runs counter to the reassuring headline that the unemployment rate hit a 50-year low. Yes, we've survived the storms and entered a new season without incident. But credit volatility will determine whether the dam holds.