



September Employment Report — A Labor Market Drifting Sideways

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Stronger Job Gains Allieve Recession Fears

- ▲ **Nonfarm payrolls rose 119,000** in September; the private sector added **97,000**, easing some recession fears.
- ▲ Revisions lowered prior months by **33,000**; the **three-month average improved to 62,000** but remains weak.
- ▲ The unemployment rate rose 0.1 pp to **4.4%**, the **highest since October 2021**, with **7.6 million** unemployed.
- ▲ Hiring remained **heavily concentrated in health care, food services, and social assistance**.
- ▲ **Rising permanent job losses**, narrow sectoral breadth, and weak goods-producing momentum point to accumulating slack and lessening inflationary tailwinds.
- ▲ ***The September employment report supports the case for further Fed easing, though the shutdown-delayed data release schedule complicates the timing. We continue to call for a quarter point cut, as we do not expect to see compelling evidence to suggest otherwise before the Fed meets on December 9-10.***

A Stabilized but Still Fragile Labor Market

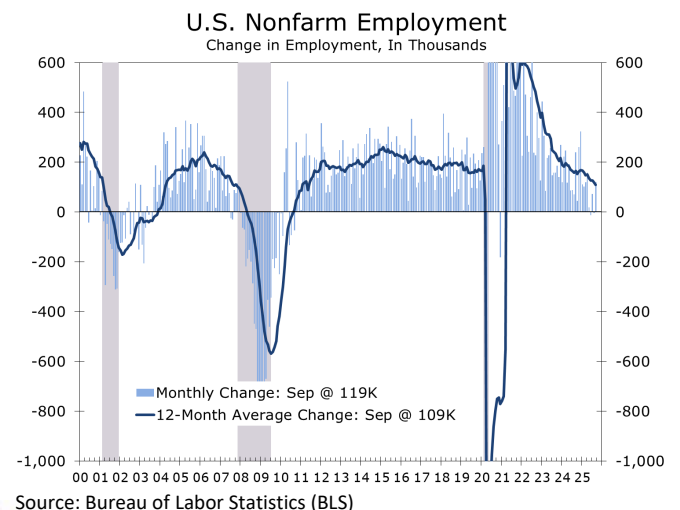
September's employment data delivered a welcome dose of stability at a moment when markets had begun to fear that the U.S. economy was sliding toward recession. Nonfarm payrolls rose 119,000, with the private sector adding 97,000 jobs — both comfortably above expectations and strong enough to reassure investors that the economy had not fallen off a cliff during the prolonged government shutdown. While

the report is backward looking it is still reassuring. Employment conditions show no evidence of a pre-shutdown collapse and handily beat the market's consensus estimates.

This modest strengthening followed another strong earnings report from Nvidia, which reinforced confidence in the AI investment cycle and eased doubts about the durability of the tech-driven productivity boom. Together, the labor data and renewed strength in AI provided just enough breathing room for markets rattled by the Liberation Day tariffs and rising global uncertainty.

Job growth has slowed to the bare minimum needed to keep unemployment from rising.

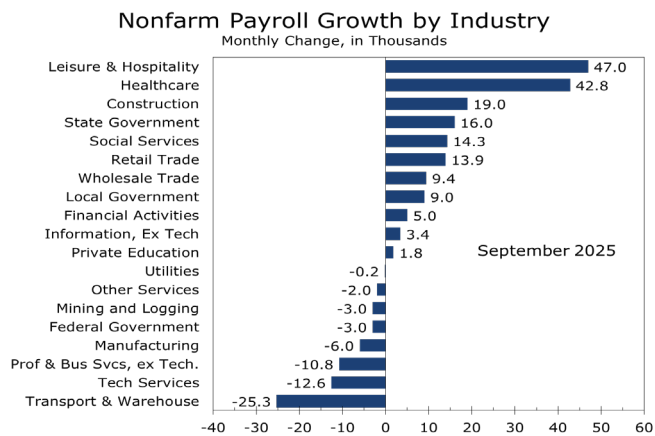
Yet beneath the steadier surface, the labor market remains fragile. Growth has slowed markedly since April, and the latest report does little to alter that narrative. The three-month average improved to roughly 62,000, but even that is barely above the pace needed to keep unemployment from rising. The uptick is welcome but hardly convincing. Job growth has lost considerable momentum since April, and September reflects stabilization, not renewed acceleration.



Revisions to July and August subtracted 33,000 jobs from the previous data, reminding us that the prior trend was weaker than first reported. And while the headline unemployment rate held at **4.4%**, its highest since **October 2021**, the increase was driven partly by a surprisingly strong **470,000** jump in labor-force entrants, a sign that workers are increasingly reentering the job market rather than disengaging from it — a **positive development**. The household survey also showed **rising permanent job losses**, which climbed above **2 million** for the first time since late 2021 — an unsettling development when hiring outside of a few industries remains sluggish.

Permanent job losses have quietly risen above 2 million — an early-cycle warning sign.

The shutdown itself added additional noise: **the household survey was completed before the funding lapse, but establishment data were compiled using an unusually high 80% electronic reporting rate**. October household data will not be collected at all, and November be published December 16, complicating the Fed’s assessment at the December 9-10 meeting. Job growth remains concentrated in a narrow slice of the service economy. **Health care (+43,000)** once again accounted for the largest share of gains, driven by ambulatory centers and hospitals. **Restaurants and bars (+37,000)** also contributed meaningfully, continuing a steady post-pandemic normalization. **Social assistance (+14,000)** was propelled by a 20,000 increase in individual and family services.



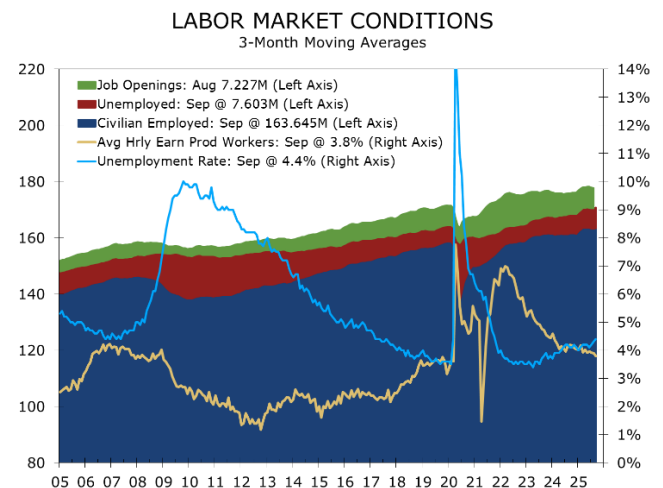
Source: Bureau of Labor Statistics (BLS)

The unemployment rate rose 0.1 percentage point **4.4%**, but the underlying composition reveals a labor market cooling slowly, not collapsing. **The labor force posted an outsized gain of 470,000**, while household employment rate by 251,000. The number of unemployed rose by the difference, 219,000. This combination — more people looking for work, but not enough hiring to absorb them — is consistent with a plateauing rather than an economy in free fall.

The case for a rate cut is firming, although a messy calendar keeps the timing uncertain.

Structural indicators point to a maturing business cycle. Hiring is heavily concentrated in health care and services. **Goods-producing sectors are flat to mildly negative**. Federal employment faces a pending Q4 cliff due to deferred resignations. **Permanent job losers are drifting upward**. This is classic late-cycle behavior, not recessionary, but not healthy either.

The Fed’s challenge is not the direction of travel — which is clearly softening — but the timing. With the data pipeline disrupted, there may be some reluctance to cut in December, but we maintain that in the absence of compelling evidence to suggest otherwise, the Fed will go with the call made on the field and cut rates a quarter point at their December 9-10 meeting.



Source: Bureau of Labor Statistics (BLS)

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