



The Daily Dish

Assessing the October Employment Report

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The U.S. labor market has been under close scrutiny for evidence of both cost-push wage inflation and the potential onset of a recession. From those perspectives, what was learned on Friday with the release of the October employment report? Well, as it turns out, nothing terribly definitive.

The top-line numbers were not particularly illuminating. The economy created 261,000 jobs, which while down a bit from recent averages is still pretty strong, but the unemployment rate moved up from 3.5 percent to 3.7 percent.

Looking directly at wage pressures, the average hourly earnings of production and non-supervisory employees grew 5.8 percent from October 2021, continuing the slowdown from a year-over-year change of 6.7 percent from January through March. So, there was perhaps a bit of cooling in wage pressures.

Viewed from another perspective, the household and payroll surveys told very different stories. While the payroll report showed 261,000 new jobs, the household survey indicated that employment fell by 358,000, hence the rise in the unemployment rate. Mixed messages from the two surveys are not uncommon around turning points in the economy.

Finally, the labor force declined by 22,000, which is hardly the recipe for reconciling a large gap between demand and supply. As shown in the graph below, the year-over-year growth in labor demand (blue line, as proxied by growth in the index of aggregate payrolls) has vastly outstripped the growth of labor supply (orange line, as measured by the civilian labor force). Since soaring in April 2021, after the passage of the American Rescue Plan stimulus, labor demand has declined from double-digit levels to 7.9 percent in October. That is both much higher than the roughly 2 percent supply growth and well above the comfort level of the Federal Reserve.

For those anticipating a sharp cooling of the labor market and even evidence of a recession, the October report did not deliver. It is at best a modest step in those directions.

The Evolution of Aggregate Labor Demand and Supply (year-over-year percent change)



