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**Daily Economic Comment**

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**Employment Relatively Strong, Despite Drag From Hurricanes**

There were no glaring outliers in today's employment report to change our expectations of near term Fed policy. Although the numbers are distorted, it appears that employment conditions were not severely disrupted after the two hurricanes.

**Household Survey** - The unemployment rate edged up to 5.1% in September from 4.9% in August. The September estimates of employment in the household survey reflect the impact of Katrina and the underlying labor market trends. It will be incorrect to draw definitive conclusions from these estimates. The BLS excluded households that are part of the sample in the hurricane affected area if they could not respond. If individuals were unable to work because the employer had shut down temporarily due to the hurricane, they were considered employed.

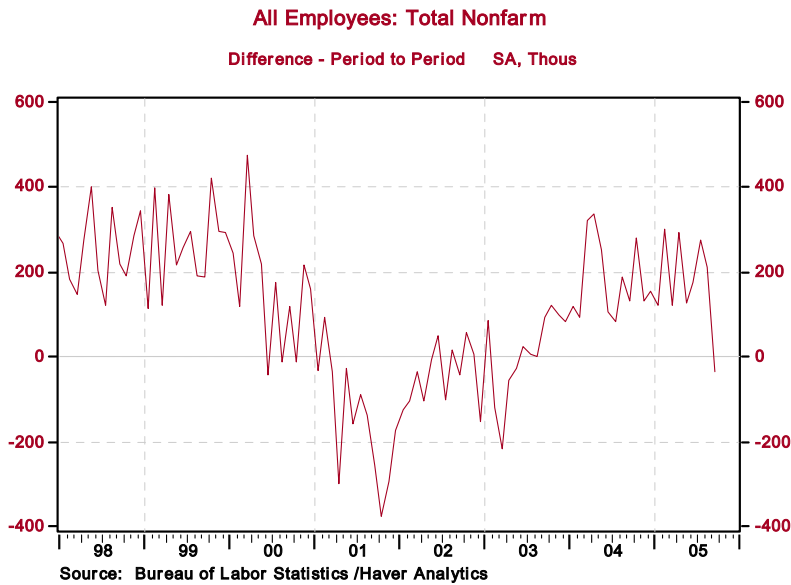
**Civilian Unemployment Rate: 16 yr +**

SA, %



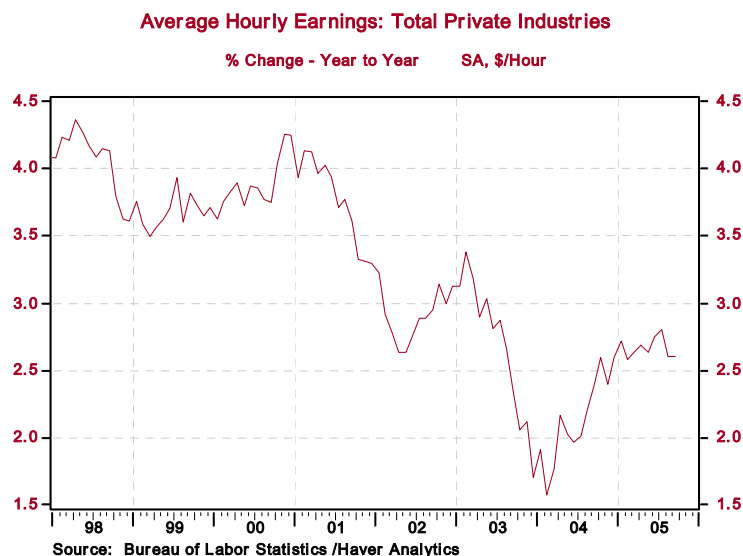
**Establishment survey** - Nonfarm payrolls fell 35,000 in September, following job gains of 277,000 in July and 211,000 in August. The net upward revisions of 77,000 to the July and August estimates of employment and the lower than expected decline in payrolls, particularly in light of the 18,000 on strike in the aero space industry, present a more upbeat employment picture compared with expectations after the two hurricanes. If the BLS was unable to reach firms in the hurricane affected areas, it assumed zero employment at these firms. This adjustment to the survey implies that a resumption of operations at these firms would translate into a jump in payroll employment when it occurs.

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In September, construction (+23,000) jobs increased but factory jobs fell 27,000 (mostly due to striking workers in Boeing). Employment in the professional and business services category increased 52,000, with more than half of the gain occurring in temporary help component. In the retail sector, a total of 88,000 were lost. This decline in jobs was spread across – restaurants, clothing stores, sporting goods stores and building materials stores. Year-to-date, payroll employment has risen an average pace of 177,000 vs. an average monthly gain of 183,000 in 2004.

Hourly earnings increased 0.2% in September taking the year-to-year increase to 2.6%. There is a slow but steady increase in hourly earnings in 2005 from the 2.0% pace of 2004. Wage costs are still benign given the increase in headline inflation numbers. The FOMC will be watching the pass through of headline inflation into wage costs closely. The drop in payrolls and small increase in hourly earnings point to a small increase in personal income in September. The manufacturing man-hours index fell 0.1% in September. More than the drop in the hours worked at factories, shut downs of refineries and other factories in the Gulf Coast will play role in the headline industrial production number for September.



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**Conclusion** - The Fed sent out its marshals during the past week to emphasize that it is committed to fighting inflation. There is virtually no doubt the Fed will raise the federal funds rate to 4.00% at the close of the November 1 FOMC meeting. Given that 4.0% federal funds rate is likely to be considered by the FOMC as being in the "neutral zone," interest rate increases going forward are not as automatic as they have been. With core inflation at the upper boundary of the Fed's comfort zone and with hurricane-related fiscal stimulus on the way, we expect the FOCM to push the funds rate above 4.0%.

### HIGHLIGHTS OF THE SEPTEMBER EMPLOYMENT REPORT

	<u>Apr-05</u>	<u>May-05</u>	<u>Jun-05</u>	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>
<b>Household Survey</b>						
Chg. in Civilian Labor Force (000)	605	360	1	450	268	252
Chg. in Civilian Employed (000)	598	376	163	438	373	-17
Civilian Unemployment Rate	5.2	5.1	5.0	5.0	4.9	5.1
<b>Establishment Survey</b>						
Chg. in Total Nonfarm Payrolls (000)	292	126	175	277	211	-35
Chg. in Manufacturing Payrolls (000)	-15	1	-25	-6	-9	-27
Chg. in Services Ex. Government (000)	241	109	173	220	165	-67
<b>Total Workweek (Hours)</b>						
Manufacturing Workweek (Hours)	40.5	40.4	40.4	40.5	40.5	40.5
Manufacturing Overtime (Hours)	4.4	4.4	4.4	4.5	4.5	4.4
<b>Average Hourly Earnings</b>						
Average Hourly Earnings	16.00	16.03	16.07	16.14	16.15	16.18
Chg. from prior month	0.3%	0.2%	0.2%	0.4%	0.1%	0.2%
Chg. from year ago	2.7%	2.6%	2.7%	2.8%	2.6%	2.6%
<b>Average Weekly Earnings</b>						
Average Weekly Earnings	540.80	540.21	541.56	543.92	544.26	545.27
Chg. from prior month	0.6%	-0.1%	0.2%	0.4%	0.1%	0.2%
Chg. from year ago	3.0%	2.3%	3.1%	2.8%	2.6%	2.3%
<b>Index of Aggregate Weekly Hours:</b>						
Chg. from prior month in Total Index	0.6%	-0.2%	0.2%	0.3%	0.2%	-0.2%
Chg. from prior month in Mfg. Index	0.2%	-0.2%	-0.1%	0.2%	0.0%	-0.1%

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