THE WALL STREET JOURNAL.

U.S. ADDED 156,000 JOBS IN SEPTEMBER; JOBLESS RATE ROSE TO 5%

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October 7, 2016

WASHINGTON—The U.S. economy delivered modest job growth in September while wages picked up, suggesting a steady labor market as the Federal Reserve weighs raising interest rates and the campaign season enters its final stretch.

Employment outside of farms grew by a seasonally adjusted 156,000 jobs in September, the smallest gain since May, the Labor Department said Friday.

The unemployment rate, derived from a separate survey of households, increased a tenth of a percentage point to 5.0%.

But that rise actually reflected encouraging signs: The overall labor force grew quickly as discouraged Americans came off the sidelines and re-entered the job search.

Economists surveyed by The Wall Street Journal expected 170,000 new jobs and a 4.9% unemployment rate. Some economists initially said the report indicated the labor market was moving sideways.

Meanwhile, growth in workers' wages accelerated last month. Private-sector workers earned, on average, $25.79 an hour in September, up 6 cents, or 0.2%, from a month earlier. The average paycheck grew 2.6% over the past year.

The report provides one of the final major snapshots of the economy before the Nov. 8 presidential election. Steady job growth has boosted the approval rating of President Barack Obama and has been cited by Hillary Clinton as she urges voters to keep Democrats in control of the White House. Her Republican challenger, Donald Trump, has pointed to high underemployment and modest economic gains among blue-collar workers in arguing for change.

The latest figures are also likely to weigh on officials at the Fed, who have suggested they are inclined to raise interest rates once by year end. The central bank has kept rates exceptionally low since the recession to spur economic growth by encouraging households and businesses to spend and invest. But Fed officials worry that keeping rates too low for too long increases the risk of creating asset bubbles.

The Fed meets twice more this year – in early November and mid-December – and is looking for signs that the labor market is tightening and, thus, strong enough to withstand higher interest rates.

Among the measures the central bank is looking at is the unemployment rate. The rate is within the 4.7% to 5% range that the Fed projects will be the economy's long-run average, or the point at which the labor market can grow without stoking a surge in inflation. But the rate would be higher had millions of working-age Americans not fallen out of the labor force in recent decades.

Some are now filtering back in after a long run of job growth.

The labor force – the number of adults who hold jobs or are actively looking for them – grew by 444,000 last month and by slightly more than 3 million over the past year.

The labor-force participation rate – the share of the overall population in the labor force – stood at 62.9% in September, up a tenth of a percentage point from August and a half-point from a year earlier. It is still hovering near the lowest level since the late 1970s, in part due to the retirement of baby boomers but also because many working-age Americans have given up the job search.

Even with the latest progress, millions of Americans are underemployed. The share of residents who are jobless, involuntarily stuck in part-time work or too discouraged to look for a job stood at 9.7% last month, unchanged from August, but down from 10% a year earlier.

The average workweek last month increased a tenth of an hour to 34.4 hours.

A broad array of industries added jobs last month. Professional and business services rose by 67,000. Healthcare jobs increased by 33,000. Food service jobs grew by 30,000. Retailers added 22,000.

Meanwhile, employment in the mining sector, which includes oil and natural gas industries, was flat over the month after falling sharply over the past two years. Manufacturing employment fell by 13,000.

The government also revised figures for prior months, though the overall outlook didn't change much. The economy added 167,000 jobs in August, up from the previously reported 151,000 jobs. It created 252,000 jobs in July, instead of 275,000.

While the labor market has grown solidly in recent years, the economy as a whole has underperformed this year. Gross domestic product – the broadest measure of goods and services produced across the U.S. – grew at an annual rate of just above 1% in the first half of the year. That is far slower than the average growth of 2.1% during the current expansion, which itself is the weakest of any period of growth since 1949.

Economists project GDP grew at a rate of between 2% and 3% in the third quarter. The government releases an initial estimate of third-quarter GDP later this month.