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Payden & Rygel Economic**Research**

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Highlights

- The US economy created 110,000 jobs in September following an upwardly revised 89,000 jobs in August.
- The unemployment rate rose by a tenth of a percent to 4.7% during the month and is up from a cyclical low of 4.4% in March.
- By most measures, the underlying trend in the labor market has turned and further cuts in interest rates are still probable.

Fed Halloween Treat Less Likely?

The US economy created 110,000 jobs in September following an upwardly revised 89,000 jobs in August, the Labor Department reported this morning. By contrast, the unemployment rate rose by one-tenth of a percentage point to 4.7% during the month and is up from a cyclical low of 4.4% in March. Overall, this report makes it less likely that the Federal Reserve will cut rates when it meets on October 30/31. However, by most measures, the underlying trend in the labor market has turned and further cuts in interest rates are still probable.

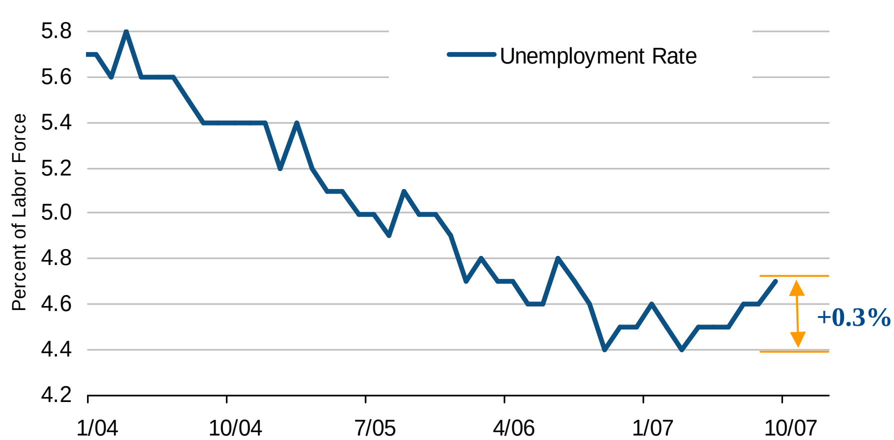
First, from June to September, payroll growth averaged 90,000 jobs per month compared to 147,000 jobs per month during the first five months of the year. Second, much of the strength in the September employment report came from hiring by the government and health services sectors, which added 37,000 and 45,000 jobs, respectively. As expected, the negative payroll print from last month was revised away reflecting the hiring of teachers for the new school year.

That said, the cyclically sensitive sectors of the economy, such as construction and manufacturing, continued to shed jobs. This is important because it is the cyclically sensitive sectors that provide insight into how the underlying economy is performing and it is these sectors that generate jobs when the economy is on an upswing.

In fact, many of the people whose jobs are tied to the housing market, whether it is real estate agents (-1,900 during September), mortgage brokers (-12,000), or retail workers at building material and gardening supply stores (-17,000), are having a tougher time finding work. Although hiring has continued in the commercial construction sector, this may not last much longer. Historically, commercial construction has tracked residential construction with a one-year lag. Looking ahead, the labor market is likely to weaken further in the coming months. Temporary help services, which tend to be a good predictor of future job growth, lost nearly 20,000 jobs in September and more than 92,000 jobs this year.

The stock market rallied on the report, while Treasury bonds sold off as investors scaled back expectations for Fed rate cuts this year. The Standard & Poor's 500 stock index rose 0.2% to 1,550 on the better than expected jobs number. By contrast, the yield on the 10-year Treasury bond increased eight basis points to 4.61%. A relative calm has returned to the markets in the wake of the Fed's decision to reduce its benchmark interest rate by 50 basis points in September, but the lingering effects of the August credit crunch may show up in the economic data during the fourth quarter. Specifically, resets on adjustable-rate mortgages and a rise in the unemployment rate are likely to act as drags on consumer spending and prompt the Fed to take further action before year end.

Unemployment Rate At Its Highest Level in Over A Year



Source: Bureau of Labor Statistics