ECONOMIC UPDATE

REGIONS

January 10, 2020

December Employment Report: Revised Data On Hours And Earnings Raise Questions

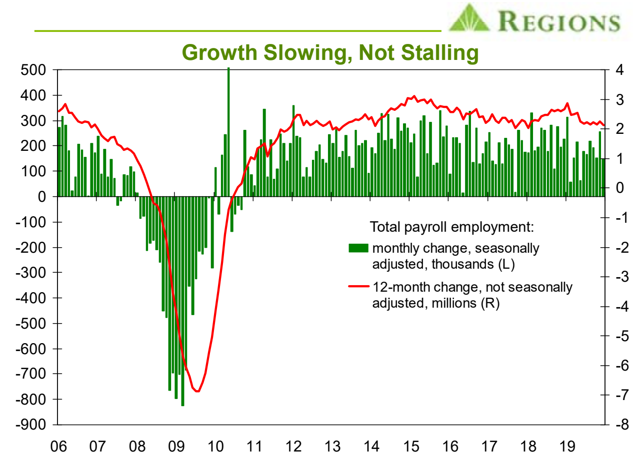
- Nonfarm employment rose by 145,000 jobs in December; prior estimates for October/November were revised down by a net 14,000 jobs
- Average hourly earnings rose by 0.1 percent in December; aggregate private sector earnings were up 0.2 percent (up 3.8 percent year-on-year)
- The unemployment rate was unchanged at 3.5 percent in December (3.496 percent, unrounded); the broader U6 measure fell to 6.7 percent

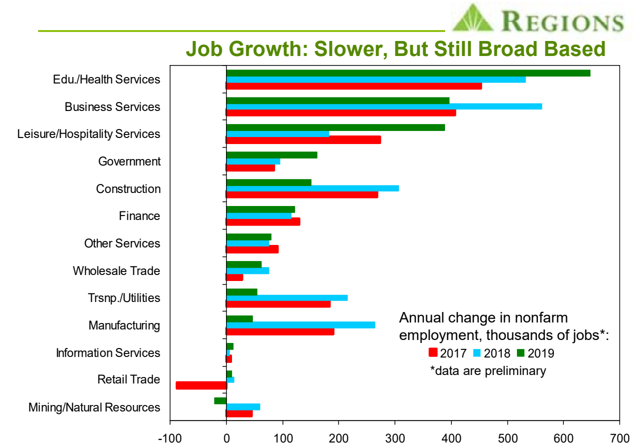
Total nonfarm employment rose by 145,000 jobs in December, shy of our below-consensus forecast of 156,000 jobs, with private sector payrolls up by 139,000 jobs and public sector payrolls up by 6,000 jobs. Prior estimates of job growth in October and November were revised down by a net 14,000 jobs for the two-month period. Hiring was a bit less broad based in December, with the one-month hiring diffusion index slipping to 57.0 percent from 65.7 percent in November. One troubling element of the December data is the downward revision to the average length of the private sector workweek in October and November, which took a heavy toll on prior estimates of growth in aggregate wage and salary earnings. The unemployment rate held steady at 3.5 percent in December, while the broader U6 rate, which also accounts for underemployment, fell to 6.7 percent, the lowest reading on record. The December data from the household survey, from which the unemployment rate is derived, reflect the annual updates to the seasonal adjustment factors used by the BLS to obtain seasonally adjusted estimates, though these revisions resulted in no changes to the monthly unemployment rates reported during 2019. Also, the January employment report will incorporate the annual benchmark revisions to the data from the establishment survey, which BLS has already announced will result in a downward revision to the level of payroll employment as of March 2019. Through it all, however, the picture of the labor market won't change much – job growth has slowed but remains broad based, with more slack remaining than is implied by the headline unemployment rate.

December job growth was broadly in line with our expectations. We anticipated the seasonally adjusted data would bring payback for atypically weak November hiring in retail trade (due to this year's late Thanksgiving) and construction (due to weather), and this was the case, with retail trade payrolls up by 41,000 jobs and construction payrolls up by 20,000 jobs. On the flip side, payrolls in education and health services rose by 36,000 jobs in December, half the size of the November increase. The one place our forecast was off is the manufacturing sector, which shed 12,000 jobs in December, contrary to the modest increase our forecast anticipated in keeping with the patterns seen over 2019, though more in line with the data from the ISM Manufacturing Index than has been the case of late. As noted above, the January employment report will incorporate the annual benchmark revisions to the establishment survey data, but we thought it worth summarizing the results of the preliminary data in our second chart below. This captures our point that, though having slowed, job growth remains broad based across industry groups.

We'll admit to not quite knowing what to make of the revisions in prior estimates of average hourly earnings and average weekly hours – both of which were revised lower for October and November. It is odd to see such impactful revisions just ahead of the annual benchmark revisions, so in that sense, all of this may look different a month from now. But, based on the data as they now stand, growth in aggregate private sector wage and salary earnings slowed sharply in Q4, with the preliminary data showing annualized growth of just 3.8 percent, still easily ahead of inflation but nonetheless much slower than had been reported previously.

Also, that the length of the average workweek is now shown to have been hovering at 34.3 hours in Q4 goes to a point we frequently make. We have consistently pointed out that the workweek remains shorter than would be the case were we truly at full employment, and have referred to the short workweek as an underappreciated form of labor market slack. If facing binding labor supply constraints, firms have ample capacity to increase total labor input by adding hours for their current workers. In addition, in a labor market largely free of slack, wage pressures would be more intense than the data imply. The question for now is whether the revised data published in the January employment report will show any meaningful differences on either, or both, of these fronts. We doubt this will be the case, in keeping with our view that there remains considerable slack in the labor market. We expect the pace of job growth to decelerate further over the course of 2020 but will remain sufficient to keep the jobless rate flat or slightly lower. Yet, as the wage data suggest, there is more slack in the labor market than implied by the unemployment rate.





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