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November Employment Report: Payroll Survey Whiffs, Household Survey Hits A Home Run

- › Nonfarm employment **rose** by 210,000 jobs in November; prior estimates for September/October were revised **up** by 82,000 jobs
- › Average hourly earnings **rose** by 0.3 percent while aggregate private sector earnings **rose** by 0.7 percent
- › The unemployment rate **fell** to 4.2 percent in November (4.244 percent, unrounded); the broader U6 measure **fell** to 7.8 percent

Total nonfarm employment rose by 210,000 jobs in November, far below what we (662,000) and the consensus (550,000) expected, with private sector payrolls up by 235,000 jobs and public sector payrolls down by 25,000 jobs. Prior estimates of job growth in September and October were revised up by a net 82,000 jobs for the two-month period which, while a sizable mark-up, ends a four-month run of net upward revisions of over 100,000 jobs for the prior two-month period. Though some were quick to point to seasonal adjustment issues to account for the significant miss on forecasts of November job growth, those doing so are barking up the wrong tree. While there is indeed a considerable degree of seasonal adjustment noise in the November data, that works in both directions, for instance penalizing retail trade and boosting construction, and on net is pretty much of a wash. One element of the November data that does arouse suspicion is the yawning gap between estimates of job growth in the establishment survey – up by 210,000 jobs – and job growth in the household survey – up by 1.136 million. At the same time, the response rate to the establishment survey was only 65.3 percent, the lowest in any month since June 2020 and the lowest in any November since 2008. To the extent the low response rate did weigh on the estimate of nonfarm job growth, that will be rectified in the revisions over the next two months. As for now, the number is what the number is, and we’ll not try to conjure up explanations for our forecast miss. Either way, the details of the household survey point to a much stronger job market in November, with the unemployment rate falling to 4.2 percent, lower than our below-consensus forecast of 4.4 percent, with the broader U6 measure, which also accounts for underemployment, falling to 7.8 percent, the lowest since February 2020. The labor force participation rate rose to 61.8 percent in November, the highest since March 2020.

At this time of the year we like to track hiring related to holiday season shopping, particularly in retail trade and warehousing and delivery services. In a typical year, holiday season hiring starts in October, kicks into a much higher gear in November, and rises further in December. This year and last, however, holiday season hiring patterns have been greatly

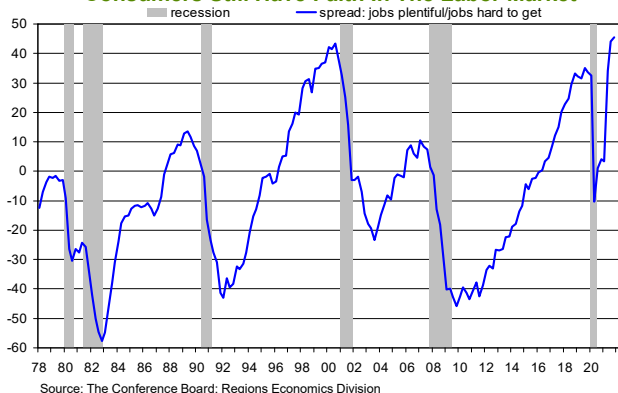
distorted by the effects of the pandemic. For instance, the not seasonally adjusted data show retail trade payrolls rose by 331,600 jobs in November which, while a seemingly robust gain, reflects an increase of “only” 2.1 percent, smaller than the average November increase of 2.5 percent. This accounts for the seasonally adjusted data showing retail payrolls fell by 20,400 jobs, but it is worth noting that October hiring in retail trade was stronger than is typical for the month. As for warehousing and delivery services, the not seasonally adjusted data show combined payrolls rose by 226,600 jobs in November, a smaller increase than is common for the month but, as with retail trade, October hiring in these industry groups was much stronger than is normal for the month. In some sense, then, job growth in these areas that would have normally occurred in November was pulled forward into October, with headline job growth in each month impacted accordingly.

Job growth was less broad based across private sector industry groups in November than was the case in October, with the one-month hiring diffusion index slipping to 63.0 percent. The average length of the workweek rose by one-tenth of an hour, to 34.8 hours, which helped boost aggregate private sector wage and salary earnings by 0.7 percent despite smaller than anticipated increases in employment and average hourly earnings. Through November, annualized Q4 growth in aggregate private sector earnings was running at a rate of 11.2 percent which, even allowing for faster inflation, yields a meaningful increase in purchasing power.

Solid earnings growth and ample numbers of open jobs are helping shape consumers’ perceptions of labor market conditions, as indicated in the Conference Board’s monthly survey of consumer confidence. As of November, the “jobs plentiful/jobs hard to get” spread was at the widest on record, and while pandemic-related concerns are never too far from the surface, consumers remain confident in their job and income prospects. The household survey measure of job growth is more closely aligned with consumers’ perceptions of labor market conditions. While there is still much ground to recover, as indicated in our second chart, the increase in labor force participation in November is an encouraging sign.



Consumers Still Have Faith In The Labor Market



Measured Unemployment Rate Understates Slack

