

ECONOMIC UPDATE



January 7, 2022

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

December Employment Report: Household Survey Continues To Outperform

- › Nonfarm employment rose by 199,000 jobs in December; prior estimates for October/November were revised up by 141,000 jobs
- › Average hourly earnings rose by 0.6 percent while aggregate private sector earnings rose by 0.8 percent
- › The unemployment rate fell to 3.9 percent in December (3.894 percent, unrounded); the broader U6 measure fell to 7.3 percent

Total nonfarm employment rose by 199,000 jobs in December, with private sector payrolls up by 211,000 jobs and public sector payrolls down by 12,000 jobs. This makes two straight months in which nonfarm job growth came in well below expectations – we and the consensus expected over 400,000 net new jobs in December – but also two straight months in which the details of the household survey were much stronger than implied by the headline job growth number on the establishment survey. The unemployment rate fell to 3.9 percent in December, with household employment rising by 651,000 as the labor force participation rate was unchanged at 61.9 percent. It is worth noting that prior estimates of job growth in October and November were revised up by a net 141,000 jobs. This continues a pattern of meaningful upward revisions to initial estimates of job growth; December marks the fifth time in the past six months in which the net upward revision for the prior two-month period topped 100,000 jobs. In another indication of increasingly tight labor market conditions, average hourly earnings rose by 0.6 percent, while aggregate private sector wage and salary earnings rose by 0.8 percent.

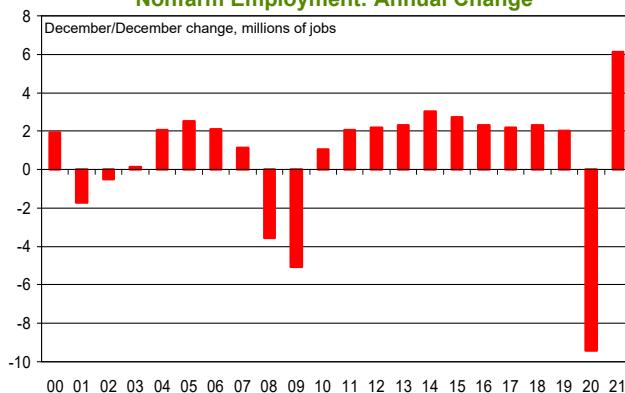
We think it worth addressing the pattern of sizable upward revisions to initial estimates of monthly job growth. What has been an increased degree of labor market turnover over the past several months could make it harder for workers who have changed jobs to be properly tracked in the establishment survey in any given month, but subsequent revisions would ultimately right any such gaps. It should also be noted that initial response rates to the monthly establishment survey have been lower than normal since the onset of the pandemic. In 2021, the average monthly response rate to the initial survey was 69.8 percent, the lowest since 2008 – the depths of the 2007-09 recession. We noted last month that the November response rate of 65.3 percent was well below average and the lowest November response rate since 2008. Typically, if an employer misses responding to the survey in a given month, in the following month they will fill in the gaps from the prior month. That did not happen to nearly the normal degree with the November survey, as the response rate for the second estimate of November job growth was only 83.8 percent, the

lowest in any month since July 2008 (response rates for the second estimate tend to be over 90 percent). With lower than normal response rates, the BLS's internal estimates must fill bigger gaps in the survey data, leaving more room for sampling error that is corrected over time. Still, the household survey is showing strong job growth. It could be that increasing numbers of people have become self-employed, meaning they will be captured in the household survey but not in the payroll survey.

We had wondered whether, or to what extent, the emergence of the Omicron variant would impact the December labor market data. The BLS reports little change in any of the metrics it has used to track the impacts of the pandemic between November and December, though it seems likely that the toll rose as December wore on, i.e., after the end of the December survey period, and the subsequent surge in case counts raises questions about the January data. As has been the case with a wide swath of the economic data since the onset of the pandemic, there is seasonal adjustment noise in the December labor market data. The seasonally adjusted data show retail trade payrolls fell by 2,100 jobs in December, which reflects the increase in not seasonally adjusted employment of 104,000 jobs being much smaller than the typical December increase, which was also the case in warehousing and delivery services, with a good portion of holiday season hiring having been pulled forward earlier in the year than is normal. It is also worth noting that health care continues to act as a drag on job growth, particularly amongst hospitals and nursing homes, where payrolls are down year-on-year.

Even allowing for job growth to be stronger than implied by the headline nonfarm job growth numbers, it is clear that hiring is being held back by labor supply constraints. There are still roughly 2.2 million fewer people in the labor force than was the case prior to the pandemic, and we do not anticipate the participation rate returning to its pre-pandemic rate any time soon. This will sustain faster wage growth than would otherwise have been the case, and will also lead firms to rely more on technology and automation to fill in the gaps. As such, a sub-4.0 percent jobless rate doesn't mean quite the same now as it did prior to the pandemic.

Nonfarm Employment: Annual Change



Jobless Rate An Incomplete Measure Of Labor Market Slack

