ECONOMIC UPDATE

REGIONS

December 2, 2022

November Employment Report: A Flimsy Basis On Which To Be Drawing Firm Conclusions

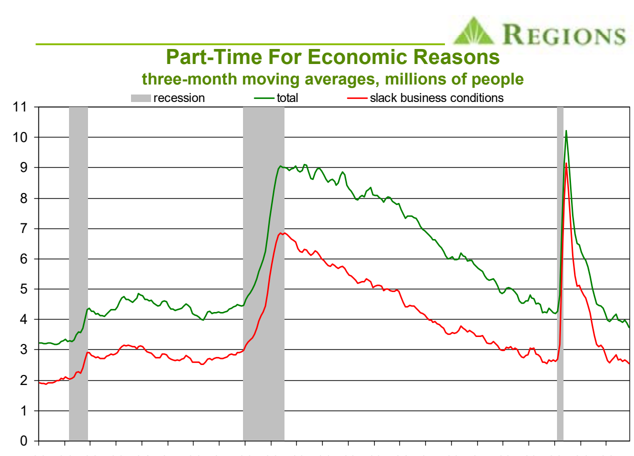
- Nonfarm employment rose by 263,000 jobs in November; prior estimates for September/October were revised down by 23,000 jobs
- Average hourly earnings rose by 0.6 percent, while aggregate private sector earnings rose by 0.4 percent (up 7.7 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in November (3.656 percent, unrounded); the broader U6 measure fell to 6.7 percent

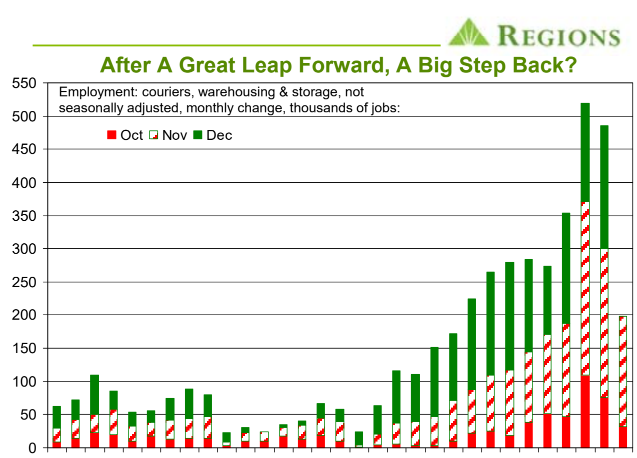
Total nonfarm employment rose by 263,000 jobs in November ahead of what we (244,000) and the consensus (200,000) expected, with private sector payrolls up by 221,000 jobs and public sector payrolls up by 42,000 jobs, with local governments accounting for most of that increase. Prior estimates of job growth in September and October were revised down by a net 23,000 jobs for the two-month period. Job growth remained broad based across private sector industry groups, but holiday-related hiring was notably weaker than is typical for a November, which is more a reflection of job growth in areas such as warehousing/delivery and retail trade having been stronger earlier in the year than a statement on holiday season shopping. We will caution that the November data exhibit a significant degree of seasonal adjustment noise, such as the sizable gain shown in leisure and hospitality services and the sizable decline shown in retail trade. The labor force participation rate fell further in November, but with household employment also falling, the jobless rate held at 3.7 percent. We continue to cast a suspicious eye on the data from the household survey, in large measure because the reported declines in the labor and household employment over the past three months are more than accounted for by declines amongst females, which simply does not seem plausible. Average hourly earnings were up by 0.6 percent in November, double the expected increase, leaving them up 5.1 percent year-on-year. At the same time, however, a decline in the average length of the workweek led to a more modest 0.4 percent increase in aggregate private sector wage and salary earnings, and while this reflects a year-on-year increase of 7.7 percent, this is the smallest such increase since March 2021. While the jump in hourly earnings has triggered the predictable frenzied "this means the FOMC will hike the Fed funds rate to infinity" reaction, it helps to recall that firms manage to total wage bills, not to hourly wages, and the drop in weekly hours is an example of them doing so in an environment in which demand is softening.

We can point to payrolls in leisure and hospitality services rising by 88,000 jobs, construction payrolls rising by 20,000 jobs, retail trade payrolls falling by 29,900 jobs, and payrolls in warehousing/delivery falling by 24,900 jobs, all as reported in the seasonally adjusted data, as evidence of seasonal adjustment noise in the November data. The not seasonally adjusted data show that payrolls in the first two of these industry groups fell, as they always do in the month of November, and that payrolls in the latter two of these industry groups rose, as they always do in the month of November. While directionally in line, the changes in the unadjusted data are smaller than is typical for the month of November, such that seasonal adjustment overcompensated. No one should draw any conclusions, let alone firm ones, from seasonally adjusted data this noisy.

On a not seasonally adjusted basis, retail trade payrolls rose by 257,000 jobs in November, while payrolls in warehousing/delivery were up by 166,200 jobs. As noted above, these are smaller (in percentage change terms) than the typical November increases. In part, that reflects hiring in these segments, most closely tied to holiday season hiring, having been so strong in most of the time since the onset of the pandemic. As such, it would make sense that we see less holiday season hiring. At the same time, however, these are the two areas in which we saw sizable gains in average hourly earnings, up 0.9 percent in retail trade and up 2.5 percent in warehousing/delivery. It could be that firms in these sectors wanted to hire more workers or had to push wages up this much to attract the workers they were able to add. This is another illustration of why it is absurd to react to an aggregated number, such as average hourly earnings, and draw sweeping conclusions as to what it says, either about potential FOMC policy moves or about the broader economy.

To that point, it is also worth noting that average weekly hours fell in both construction and manufacturing, two areas in which higher interest rates and softer demand have clearly taken a toll. Additionally, some are puzzled by the reported increase in information services payrolls (up by 19,000 jobs) in the wake of reported layoffs in the tech sector. Part of it may be timing, particularly given the early end to the November payroll survey period, but part of it may be that displaced workers from consumer facing tech companies are quickly finding jobs in other (business facing) areas of the tech sector, where demand for workers remains strong.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com