ECONOMIC UPDATE

REGIONS

January 6, 2023

December Employment Report: Clear Evidence Of A Cooling Labor Market

- Nonfarm employment rose by 223,000 jobs in December; prior estimates for October/November were revised down by 28,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.2 percent (up 6.5 percent year-on-year)
- The unemployment rate fell to 3.5 percent in December (3.469 percent, unrounded); the broader U6 measure fell to 6.5 percent

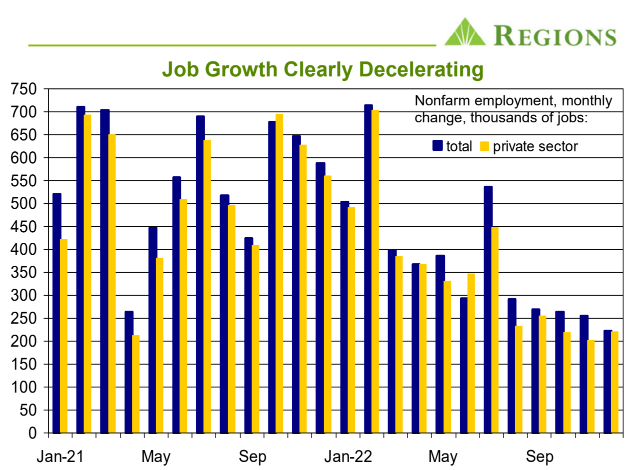
Total nonfarm employment rose by 223,000 jobs in December, just shy of our above-consensus forecast of 229,000 jobs, with private sector payrolls up by 220,000 jobs and public sector payrolls up by 3,000 jobs. Prior estimates of job growth in October and November were revised down by a net 28,000 jobs for the two-month period, with private sector job growth knocked down by 48,000 jobs and public sector job growth bumped up by 20,000 jobs. As we expected would be the case, there is a considerable degree of seasonal adjustment noise in the December that for the most part netted out, with counts in leisure and hospitality services and construction made to look better and job counts in retail trade and warehousing/delivery made to look worse in the seasonally adjusted data. Average hourly earnings rose by 0.3 percent but the initial estimate of a 0.6 percent increase in November, which at the time we flagged as being suspect, was revised down to 0.4 percent. As of December, average hourly earnings are up 4.6 percent year-on-year, the smallest such increase since August. Moreover, average weekly hours fell in December, the second straight decline, which was a meaningful weight on growth in aggregate private sector wage earnings, which were up by just 0.2 percent. The unemployment rate fell to 3.5 percent, below our forecast of 3.6 percent, while the broader U6 rate, which also accounts for underemployment, fell to 6.5 percent, the lowest on record.

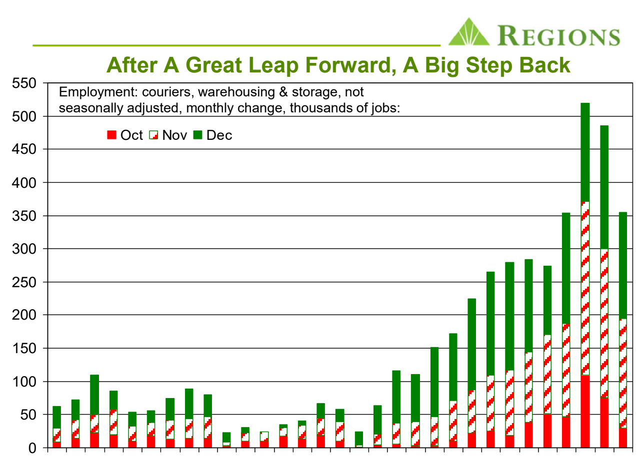
To our point on seasonal adjustment, the raw data show payrolls in leisure and hospitality services fell by 46,000 jobs while construction payrolls were down by 131,000 jobs. In terms of percentage changes from November, however, these are much smaller than the typical December declines, hence the seasonally adjusted data showing payrolls in leisure and hospitality services up by 67,000 jobs and construction payrolls up by 28,000 jobs. On the flip side, while unadjusted payrolls in retail trade and warehousing/delivery were up in December, they rose by much less than is typical for the month, hence the seasonally adjusted data showing only a modest increase in the former and a decline in the latter. On the whole, holiday season (October-December) hiring in retail trade and warehousing/delivery services was much smaller this year than in either of the past two years, which is consistent with the patterns seen in the data on retail sales. This isn't as much a commentary on the state of U.S. consumers it is a commentary on the mix of spending between goods and services and the weakness in consumer goods prices.

Job growth remained fairly broad based across private sector industry groups, with the one-month hiring diffusion index at 60.7 percent, the lowest since August but in line with pre-pandemic norms. What is more noteworthy in the December data is a second straight one-tenth of an hour decline in average weekly hours worked. If those seem trivial changes, each one-tenth of an hour change is equivalent to over 300,000 private sector jobs in terms of aggregate hours worked, which in turn has a profound impact on growth in private sector wage earnings. What is less clear is why average weekly hours have fallen. It could be that firms are using average hours worked as a lever to manage total labor input in the face of slowing demand, as an alternative to letting workers go. It could be that, at least in December, rising COVID cases held down hours worked, as the household survey shows a jump in people working part-time due to illness (people who would normally work full-time). It is likely some of both, but we have been pointing to hours worked as a key metric to watch as firms manage total labor input amid slowing demand.

The decline in the unemployment rate came despite an uptick in the labor force participation rate. We do, however, remain quite suspicious of the labor force data given that the changes in the labor force over the past several months are overwhelmingly driven by reported changes in female participation across all age cohorts, which simply doesn't seem plausible.

Slowing job growth, slowing wage growth, and shorter workweeks are all clear signs of a cooling labor market. We'll caution that a month from now, perceptions of the labor market could change significantly with the release of the revised payroll survey data. We suspect the data as they now stand meaningfully overestimate job growth over the back half of 2022, and that the revised data will be more in line with data showing slower overall economic growth and clearly decelerating inflation.





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