ECONOMIC UPDATE
REGIONS
January 5, 2024

December Employment Report: Solid Headline Numbers, But Plenty Of Room For Doubt

- Nonfarm employment rose by 216,000 jobs in December; prior estimates for October and November were revised down by a net 71,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.3 percent (up 5.4 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in December (3.743 percent, unrounded); the broader U6 measure rose to 7.1 percent

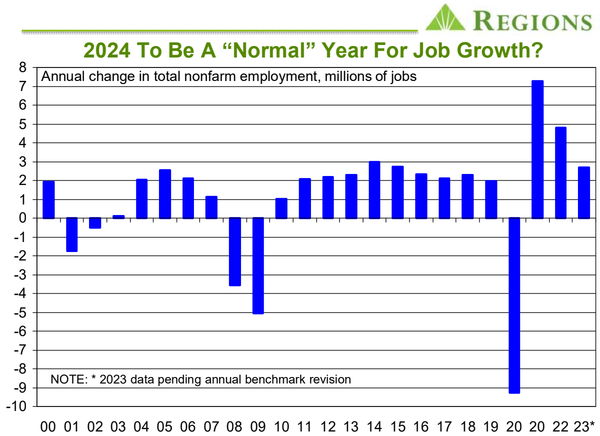
Total nonfarm employment rose by 216,000 jobs in December, ahead of expectations, with private sector payrolls up by 164,000 jobs and public sector payrolls up by 52,000 jobs. Prior estimates of job growth in October and November were revised down by a net 71,000 jobs for the two-month period, with the net gain in private sector payrolls revised down by 55,000 jobs. The household survey data show massive declines in both the size of the labor force and the level of household employment, both down by over 600,000 persons, which left the unemployment rate at 3.7 percent. The broader U6 measure, however, rose to 7.1 percent, in part due to more people involuntarily working part-time than had been the case in November. Average hourly earnings were up by 0.4 percent, yielding a year-on-year increase of 4.1 percent while aggregate private sector wage and salary earnings were up by 0.3 percent, as the larger gain in average hourly earnings and the larger increase in private sector payrolls more than offset a decline in average hourly earnings.

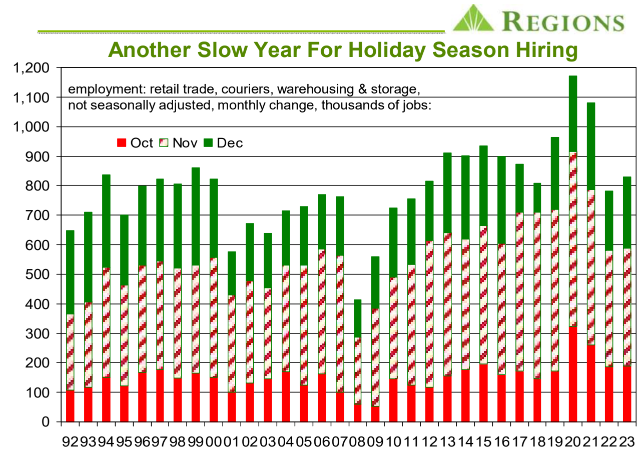
While the numbers in the above paragraph are the numbers that analysts, market participants, and headline numbers will react to, here is what is, or at least should be, a much more relevant number – 49.4 percent. That is the response rate to the December establishment survey and is the lowest monthly response rate since January 1991. We have for some time been pointing out that response rates to the BLS's surveys, including the establishment surveys and the surveys used to produce the JOLTS data, have been significantly lower since the onset of the pandemic than had been the case prior to the pandemic. This in turn lessens the reliability of the initial estimates of any metrics flowing from these surveys, which in the case of the monthly employment reports includes not only the headline job growth number but also average hourly earnings, average weekly hours, and the employment diffusion index, amongst others. For anyone not making the connection, these low response rates have, at least in our view, contributed to a disturbing, but largely overlooked, trend in the data. In each month of 2023 through October, the estimate of monthly job growth has been revised significantly lower between the first and third estimates, October being the last month for which we have all three estimates. The average downward revision of 55,000 jobs is equivalent to twenty-four percent of the initial estimate. The response rate to the December establishment survey casts a large cloud over the initial estimates of job growth, hourly earnings, and hours worked. This will be washed away next month upon the release of the annual benchmark revisions to the establishment survey data, but if the pattern of low response rates persists, the monthly estimates of job growth in 2024 will be equally unreliable and equally prone to sizable downward revisions.

Measured December job growth is also distorted by seasonal adjustment. As we expected, seasonally adjusted estimates of payrolls in retail trade and warehousing and delivery services are look worse; on a not seasonally adjusted basis, these segments combined added 243,800 jobs, while the seasonally adjusted data show a net decline of 19,800 jobs, which stems from the not seasonally increase being smaller than is typical for the month of December. In contrast, seasonal adjustment flattered seasonally adjusted estimates of job growth in leisure and hospitality services, construction, and, to a lesser degree, state and local government.

Another trend we've been highlighting is private sector job growth having become increasingly less broad based. While the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 59.6 percent in December, that number is as suspect as any other number stemming from the establishment survey. Even if you take that at face value, health care and social services payrolls rose by 58,900 jobs in December, accounting for over one-third of private sector job growth. For 2023 as a whole, health care and social services accounted for over forty-five percent of private sector job growth, and if we add in leisure and hospitality services, these two industry groups accounted for over two-thirds of private sector job growth.

It is, quite honestly, hard to say much about the state of the labor market when the reliability of the data is as lacking as we see it as being, with the inherent volatility of the household survey not making the task any easier. Through all the noise, we see the labor market as softening, but perhaps the most significant takeaway is that the slowing trend rate of job growth remains a function of less hiring, not more layoffs.





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