ECONOMIC UPDATE

REGIONS

January 10, 2025

December Employment Report: Labor Market Ends The Year On A Solid Note

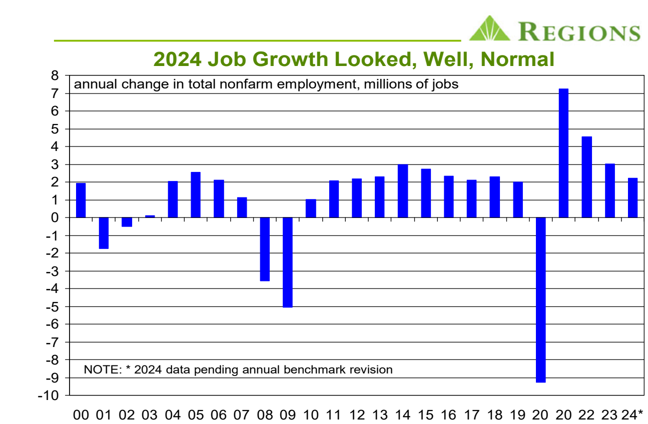
- Nonfarm employment rose by 256,000 jobs in December; prior estimates for October and November were revised down by a net 8,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.5 percent (up 5.0 percent year-on-year)
- The unemployment rate fell to 4.1 percent in December (4.086 percent, unrounded); the broader U6 measure fell to 7.5 percent

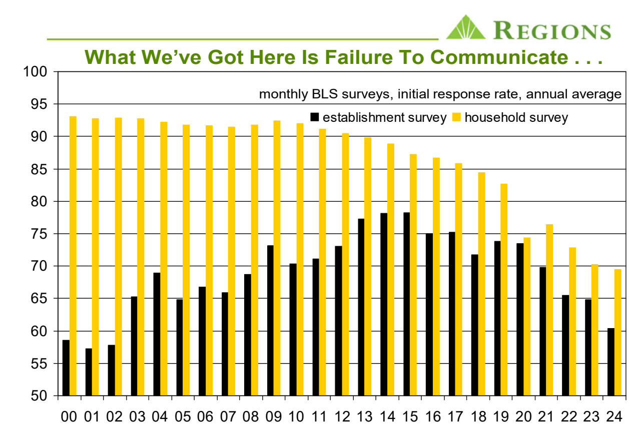
Total nonfarm employment rose by 256,000 jobs in December, blowing past our above-consensus forecast of 182,000 jobs, with private sector payrolls up by 223,000 jobs and public sector payrolls up by 33,000 jobs. Prior estimates of job growth in October and November were revised down by a net 8,000 jobs for the two-month period, a much smaller revision than has been the case over the past several months. Retail trade and leisure and hospitality services posted stronger gains than we had anticipated, while manufacturing payrolls declined further, with declines concentrated amongst producers of durable goods. Average hourly earnings rose by 0.3 percent, yielding a year-on-year increase of 3.9 percent, but the more relevant metric, aggregate private sector wage and salary earnings, rose by 0.5 percent, good for a year-on-year increase of 5.0 percent. The unemployment rate fell to 4.1 percent, matching our below-consensus forecast, and the unrounded number is closer to rounding down to 4.0 percent than to rounding up to 4.2 percent, which may be a harbinger of what's to come in the months ahead if our premise of much slower growth in the labor force is correct. The broader U6 metric, which also accounts for underemployment, fell to 7.5 percent in December from 7.7 percent in November, in part due to a decline in the number of people working part-time for economic reasons.

Pending the final results of the BLS's annual benchmark revision process which will be incorporated into the January employment report, total nonfarm payrolls increased by 2.232 million jobs. Note that while the benchmark revisions will show a sharp decline in the level of nonfarm payrolls as of March 2024, that will not necessarily result in as significant of a change in the monthly job growth numbers. In other words, don't dismiss this preliminary estimate of 2024 job growth out of hand. Indeed, the preliminary number is right in line with average annual job growth over the decade prior to the pandemic. Our second chart highlights a troubling trend we've for some time been pointing to, which is the significant decline in collection rates to the BLS's monthly surveys. We've for some time argued that the initial estimates of nonfarm payrolls, hours, and earnings have been overstated, an argument that will partly, but not fully, be settled by the upcoming benchmark revisions. Keep in mind, however, that there is no such comprehensive revision for the data from the household survey, which we and others have argued has not kept pace with the significant net international in-migration seen over the past few years and which we suspect next year will miss the slowing in those flows already apparent in other data.

As noted above, stronger hiring in retail trade was one reason for the upside beat on headline job growth. The not seasonally adjusted data show seasonal hiring in retail trade got off to a slower start in October and November, so to some extent the larger increase in December can be seen as payback. For the three-month period as a whole, however, hiring in retail trade (again, based on the not seasonally adjusted data) fell short of last year's increase. We have for the past several years also tracked holiday season hiring amongst warehousing and delivery services, and the not seasonally adjusted data show slightly stronger hiring in both areas this year, which is consistent with the ongoing increase in the share of core retail sales accounted for by online shopping. It is also worth noting that the not seasonally adjusted data show a stronger than normal December for leisure and hospitality services, including both lodging establishments and restaurants. This is consistent with strong demand for travel services and other forms of discretionary spending over the final several weeks of 2024 – including over the late Thanksgiving weekend.

We find it rather dumbfounding that many see the December employment report as being "inflationary" and are arguing that a "hot" labor market could lead the FOMC to raise the Fed funds rate this year. As a reminder, workers are more than idle consumption machines paid by firms to do nothing all day and then sent out with money to buy things. Indeed, labor productivity growth has been trending higher which, along with meaningfully faster labor supply growth, contributed to easily above-trend real GDP growth in 2023 and 2024. Workers are able to consume only because they produce, and it is somewhat curious that so many see only the consumption part and miss the production part. That said, if we are correct in thinking that labor supply will not grow nearly as fast in 2025 as over the prior two years, it isn't clear that productivity growth is yet strong enough to fully compensate. So, in that sense, those seeing the labor market as a source of inflation pressures may ultimately be correct, even if for the wrong reasons.





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