

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: A Report Full Of Mixed Messages

- › Nonfarm employment **rose** by 156,000 jobs in December; prior estimates for October/November were revised **up** by a net 19,000 jobs.
- › Average hourly earnings **rose** by 0.4 percent; aggregate private sector earnings **rose** by 0.5 percent (up 4.0 percent year-on-year).
- › The unemployment rate rose to 4.7 percent (4.716 percent unrounded); the broader U6 measure **fell** to 9.2 percent.

Unlike your holiday gifts, the December employment report did not come wrapped nicely and neatly with a bow on top. Instead, it looks like a loosely thrown together hodgepodge of numbers with no clear theme. Then again, in a sense that makes it the perfect gift, as there are so many contradictory themes beneath the headline number that the December employment report can be pretty much what anyone reading through it wants it to be. The bottom line, though, is that while the labor market may or may not be made great again, it is clearly not there yet.

Total nonfarm employment rose by 156,000 jobs in December, with private sector payrolls up by 144,000 jobs and public sector payrolls up by 12,000 jobs. While prior estimates for job growth in October and November were revised higher by a net 19,000 jobs, this number masks a stark divergence between the private and public sectors. Private sector job growth was revised up by a net 53,000 jobs for the two-month period, while public sector payrolls were revised down by a net 34,000 jobs. It is worth noting that the response rate to the BLS's establishment survey last month was just 67.6 percent, meaning that for both November and December the response rate was below the 2016 average of 75.0 percent. As such, we expect the initial December estimate for private sector job growth will be revised higher, as was the initial November estimate. For 2016 as a whole, the U.S. economy added 2.157 million jobs, with private sector payrolls rising by 1.974 million jobs (pending the annual benchmark revision process, the results of which will be released with the January employment report). That the pace of job growth has slowed is not surprising, it is instead common as the business cycle matures. While broad based hiring has been one of the hallmarks of the current expansion, the one-month hiring diffusion index, a measure of the breadth of hiring across the private sector, has settled in to a lower range over the past several months, another mark of a maturing expansion.

December's job gains were led by health care and leisure & hospitality services, with modest gains sprinkled across other industry groups. Manufacturing payrolls rose by 17,000 jobs, in line with the signals being

sent by the ISM Manufacturing Index of late. The employment data confirm the shifts in holiday shopping patterns apparent in other metrics – total retail trade payrolls rose by just 6,000 jobs in December, but payrolls at general service stores, which includes department stores, fell by 23,900 jobs. At the same time, courier and messenger services added just under 12,000 jobs in December. Payrolls in business services were up by only 15,000 jobs, considerably below the underlying trend rate.

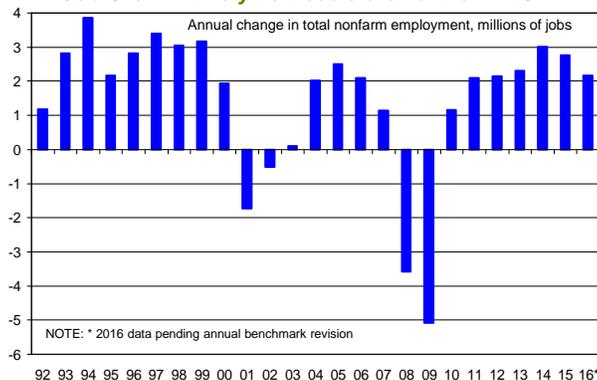
The average workweek was just 34.3 hours in December, matching the downwardly revised November figure. This is somewhat disappointing, as each one-tenth of an hour change in the workweek is equivalent to over 300,000 private sector jobs in terms of the economy's productive capacity, and the average workweek is well shy of where it would be in a fully healthy labor market. Moreover, the lower workweek holds down growth in aggregate private sector earnings. While average hourly earnings were up 0.4 percent in December, this is largely a function of the calendar quirk that held down reported earnings in November. On an annual average basis, hourly earnings rose 2.6 percent in 2016.

That rate of growth is below the 3.0-to-3.5 percent growth we would see in a fully healthy labor market. We have argued wage growth is being held down by a greater degree of slack in the labor market than is implied by the headline unemployment rate, and the December data do nothing to alter our view. As seen in the chart below, the number of underutilized labor resources, at 14.8 million in December, remains above the roughly 13.5 million we see as consistent with full employment. This slack will continue to act as a weight on wage growth over much of 2017.

While the December employment report is full of mixed messages, that is an apt reflection of the labor market. There can be no debating the considerable progress made in recent years – over 15.6 million net new jobs since 2010. At the same time, though, no one can plausibly deny there is still ample room for improvement. Whether the pace of that improvement picks up in 2017 will remain to be seen.



Job Growth Likely To Decelerate Further In 2017



Still A Significant Degree Of Slack To Be Absorbed

