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December Employment Report: A Noisy End To Another Solid Year

- Nonfarm employment rose by 148,000 jobs in December; prior estimates for October/November were revised down by a net 9,000 jobs
- Average hourly earnings rose by 0.3 percent; aggregate private sector earnings rose by 0.5 percent in December (up 4.5 percent year-on-year)
- The unemployment rate was unchanged at 4.1 percent in December (4.095 percent, unrounded); the broader U6 measure rose to 8.1 percent

In our weekly *Economic Preview* we noted that seasonal adjustment noise in the retail trade and transportation/warehousing sectors would likely distort the headline print on the December employment report. Turns out we were right, but for the wrong reason – in contrast to our expectation that this noise would inflate the headline job growth number, it did the opposite, thus making hiring look weaker than was actually the case. Total nonfarm employment rose by 148,000 jobs in December, below the consensus estimate of 189,000 and further below our forecast of 202,000. Private sector payrolls were up by 146,000 jobs in December while public sector payrolls eked out a 2,000 job gain. Prior estimates of job growth in October and November were revised down by a net 9,000 jobs for the two-month period. Though the count is still preliminary pending the annual benchmark revisions, total nonfarm payrolls rose by 2.188 million jobs in 2017, with private sector payrolls rising by 2.132 million jobs.

On a seasonally adjusted basis, retail trade payrolls are reported to have fallen by 20,300 jobs in December, with payrolls amongst general merchandise stores falling by 27,300 jobs. The not seasonally adjusted data show retail trade payrolls rose by 59,000 jobs in December, less than our forecast had anticipated. At the same time, however, retail hiring in November was revised higher, with the not seasonally adjusted data showing an increase of 463,000 jobs, the strongest November retail hiring since 2012. Given that Thanksgiving fell earlier in the month in 2017 than in past years, it makes sense that more retail hiring would have been pulled into November. Again, the counts are still preliminary, but as of now retail trade payrolls rose by 655,000 jobs (not seasonally adjusted) over the October-December period, bettering the 641,000 jobs added over the same period of 2016. And, no assessment of holiday-related hiring is complete without accounting for hiring in delivery, and warehousing, i.e., the logistics associated with online shopping. These industry groups added 259,600 jobs over the October-December period, which comes up short of hiring in the past two years. This helps account for why the seasonally adjusted data for December show a decline in job counts in these industry groups.

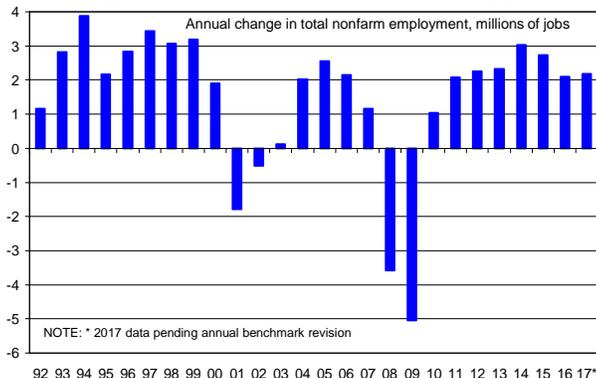
This noise should not deflect attention away from what is otherwise a solid employment report. Payrolls in the goods producing industries were up by 55,000 jobs, with manufacturing payrolls up by 25,000 jobs and construction payrolls up by 30,000 jobs (mining payrolls were flat). In manufacturing, hiring in durable goods producing industry groups was solid, including a 6,000 job increase amongst producers of machinery. Steady job gains here are a reflection of the recent strength of capital spending, and this will continue in 2018. In addition to the duration – December marks a record 87th consecutive month of job growth – another notable trait of the current cycle is the breadth of hiring. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industries (and our favorite beneath the headlines metric) stood at 64.2 percent, and within manufacturing the one-month hiring diffusion index stood at 65.4 percent. It has been more than two decades since we've seen such a prolonged stretch of such broad based job growth.

The unemployment rate held at 4.1 percent in December while the broader U6 measure ticked up to 8.1 percent, mainly on an increase in the number of those working part-time for economic reasons. Average hourly earnings rose by 0.3 percent in December, leaving them up 2.5 percent year-on-year. One factor helping hold down wage growth is a steady inflow of labor force entrants, with roughly 4.5 million people per month moving from not in the labor force one month to employed in the next month, a figure which has risen as the expansion has endured. At some point these inflows will slow, at which point wage pressures may become more intense. Aggregate private sector earnings, which incorporate the number of people working, how many hours they work, and what they earn for each hour worked, were up 0.5 percent in December, leaving them up 4.5 percent year-on-year, easily outpacing inflation.

The noisy headline number notwithstanding, the December employment report is solid. Hiring remains notably broad based and remaining slack is being steadily pared down. Thus, while wage growth has been frustratingly slow so far, it will improve over the course of 2018.



2017 Another Solid Year For Job Growth



Hiring Remains Notably Broad Based

