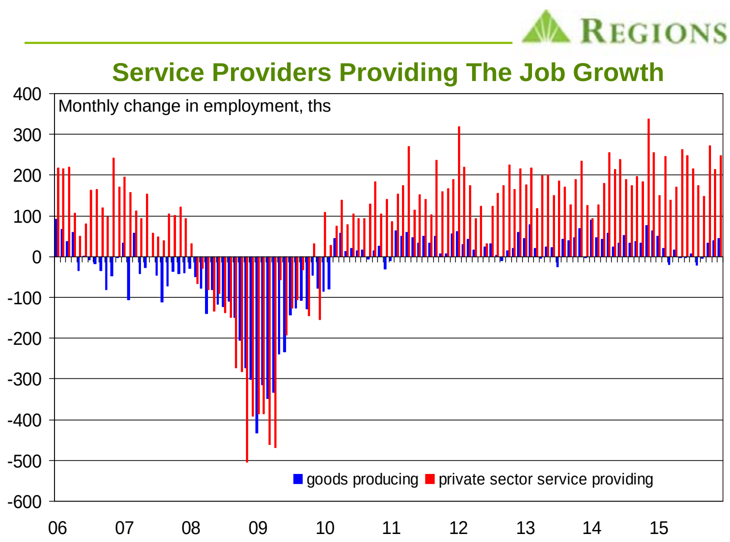
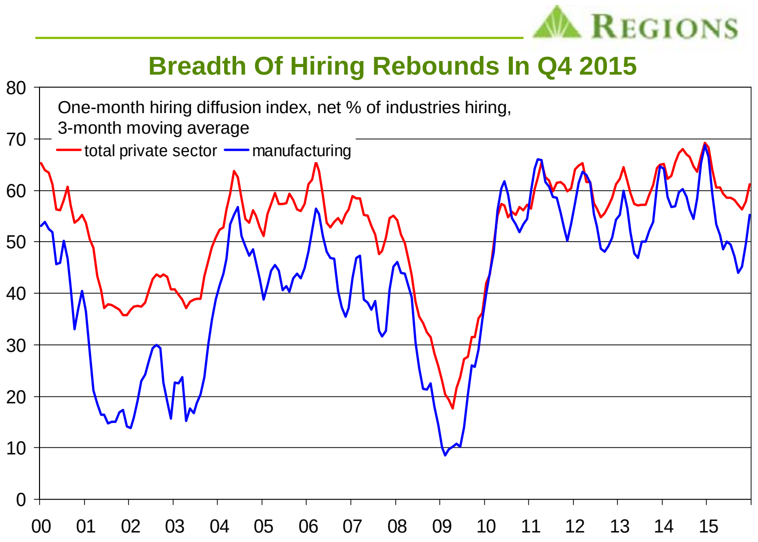
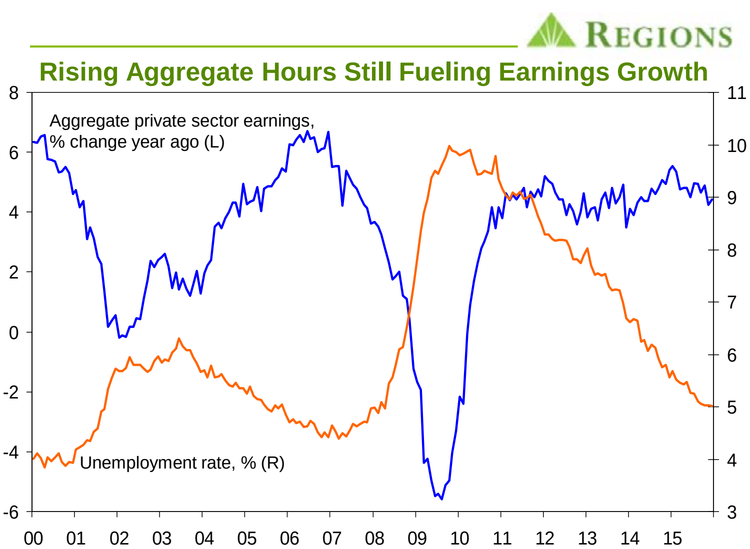


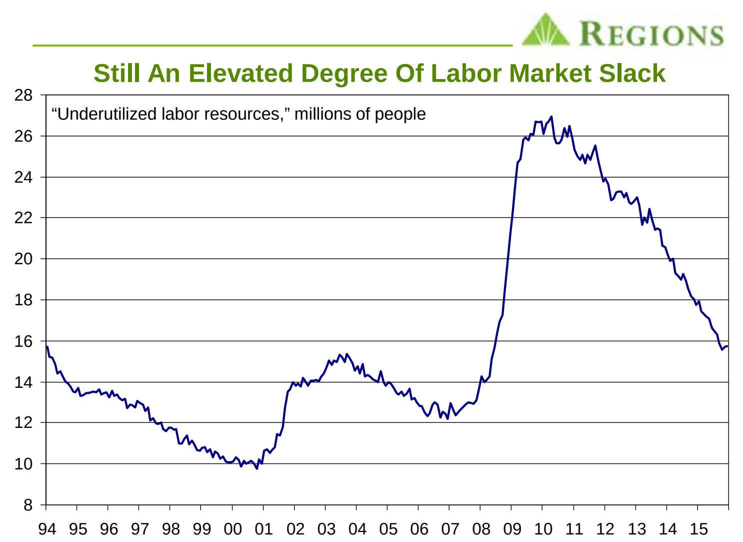
During 2015 private sector job growth was provided almost exclusively by service providers. Payrolls in the goods producing industries have been weighed down by sharp cuts in energy while manufacturing hiring has been uneven with many industry groups feeling the ill effects of a stronger U.S. dollar and soft global demand. Construction payrolls have risen rapidly but we'll caution reported November and December gains were artificially boosted by seasonal adjustment stemming from unseasonably warm weather.



One hallmark of the current expansion is hiring has been more broadly based than at any time since the 1990s. The hiring diffusion index, a measure of the breadth of hiring across private sector industries, bounced back smartly in Q4 2015. This rebound supports the premise, we offered at the time, that the slowdown in hiring in August and September was a response to a surge in volatility in the financial markets and concerns over global growth rather than a sign domestic economic conditions had deteriorated.



Growth in aggregate private sector earnings growth remains healthy, with average growth of 4.82 percent in 2015 – compare that to what will be a 0.1 percent gain in the total CPI. Growth in aggregate earnings is being driven not by growth in hourly earnings but by growth in aggregate hours worked. Even so, the weakness in the goods producing industries has weighed on both hours worked and hourly earnings. Growth in aggregate earnings would be closer to six percent in a fully healthy labor market, and we do not expect to get all the way there in 2016.



Despite the addition of over 10.4 million jobs over the past four years and an unemployment rate of 5.0 percent growth in average hourly earnings has yet to accelerate to any meaningful degree. In our view, this reflects what remains a high degree of slack in the labor market. The number of those unemployed, working part-time for economic reasons, and marginally attached to the labor force (the numerator for the U6 measure) has fallen sharply from the cyclical peak but remains at least, by our estimate, around 2.2 million higher than would be seen in a normal labor market.

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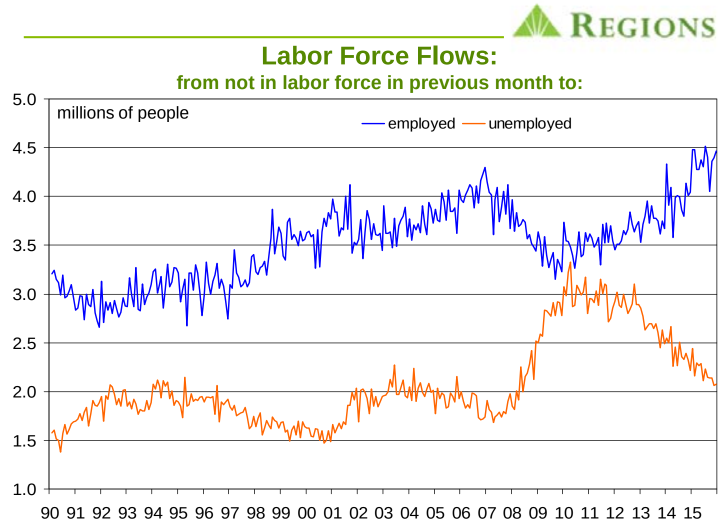
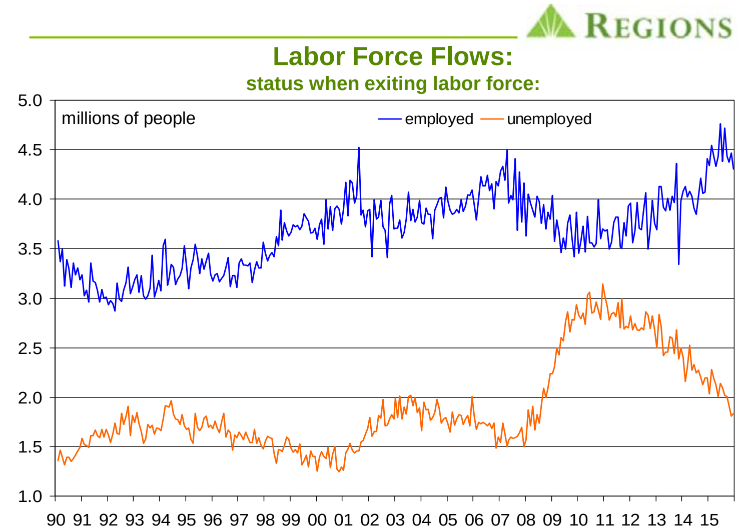
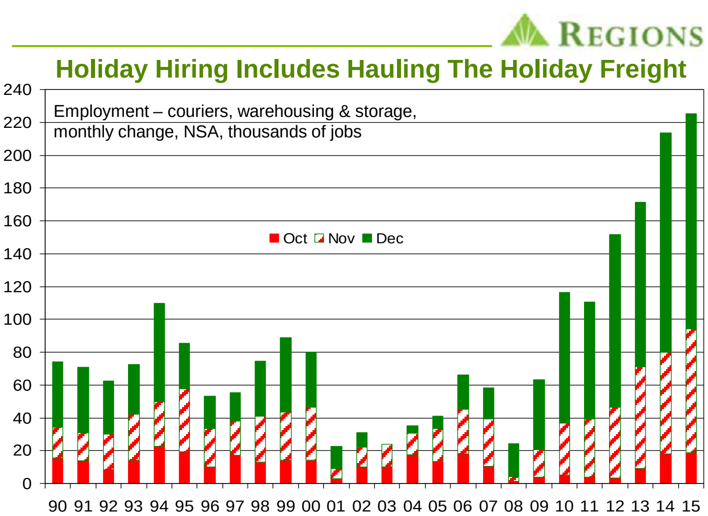




Historically, it has been the case the majority of people who enter the labor force in a given month are employed upon entry. Over recent quarters that majority has grown and during 2015 the flow of employed labor force entrants almost entirely offset those who transitioned from employed to not in the labor force (next chart). We see this as one factor holding down wage pressures. Many of these employed entrants are likely coming from school; given the growth in enrollments during/after the 2007-09 recession this remains a fairly deep pool of potential labor supply.

Recent quarters have seen a notable increase in the number of those transitioning from employed in one month to out of the labor force in the following month. This to a large extent reflects the initial wave of retiring Baby Boomers and the number of those making this transition will likely continue to rise in the quarters ahead. To the extent retiring Baby Boomers are being replaced in the labor force, specifically in the pool of employed, this will help hold down measured growth in average hourly earnings.

Source: Bureau of Labor Statistics; Regions Economics Division



Source: Bureau of Labor Statistics; Regions Economics Division

The holiday hiring season started with a bang but ended with a whimper. Retail hiring for the month of October hit a record high in 2015 (not seasonally adjusted, with employment in categories corresponding to our measure of holiday sales) but hiring fizzled in December. This reflects the challenges of brick and mortar retailers and also the impact unseasonably warm weather had on apparel sales. Preliminary data show retail holiday hiring barely topped 2014's total but fell short of 2013. Still, this has far more to do with how consumers shop, not whether or not they shop.

In contrast to retail hiring, hiring of couriers & messengers (the category into which delivery workers fall) hit a record in 2015 (December's hiring alone was the highest on record save for the distortion around the end of the 1997 UPS strike). This is a reflection of the extent to which on-line shopping has impacted the holiday sales landscape, and this impact will only grow going forward. One caveat, though, is many of December's hires will be gone in January, but as on-line shopping isn't going away trend hiring in the groups shown here will remain solid.

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