ECONOMIC UPDATE

REGIONS

January 8, 2016

December Employment Report: December Caps Another Strong Year For Hiring

- Nonfarm employment rose by 292,000 jobs in December; prior estimates for October/November were revised up by a net 50,000 jobs.
- Average hourly earnings were unchanged, with aggregate private sector earnings up by 0.2 percent (up 4.42 percent year-over-year).
- The unemployment rate held at 5.0 percent (5.008 percent unrounded); the broader U6 measure held at 9.9 percent.

Total nonfarm employment rose by a stronger than expected 292,000 jobs in December with private sector payrolls up by 275,000 jobs and government payrolls up by 17,000 jobs. The unemployment rate held at 5.0 percent with sizeable increases in both household employment and the labor force. Hourly earnings remained the weak link in the evolution of the labor market, with average hourly earnings down a cent during the month and up 2.5 percent year-on-year. Still, aggregate private sector earnings, which is the more relevant metric in terms of overall consumer spending, were up 0.2 percent in December and were up 4.42 percent year-on-year, easily outpacing inflation.

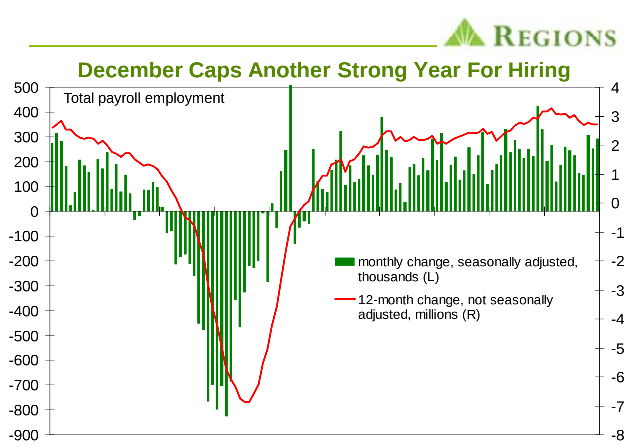
As always the case, there was a good deal of variance in the monthly job growth numbers in 2015 but, as seen in the second chart below, hiring was solid for the year as a whole. In 2015 total nonfarm payrolls rose by 2.7 million jobs, the December/December change in not seasonally adjusted employment), down from 3.2 million in 2014 but nonetheless the second strongest year since 1999. These numbers are subject to change in the annual benchmark revision process, the results of which will be release next month, but the BLS indicates the revisions will be modest. This helps, at least we hope it helps, illustrate a point we frequently make, which is to focus on the underlying trends without getting too caught up in the month-to-month swings, which at present is an especially good thought to hold on to.

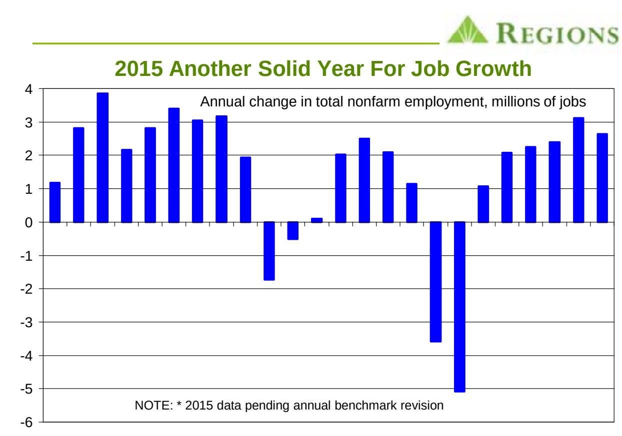
The breadth of hiring has been another notable element of the labor market over recent quarters. In December, the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industries, rose to 64.4 percent, while within the manufacturing sector the hiring diffusion index jumped to 58.8 percent, the highest since last January. Payrolls within manufacturing rose by 8,000 jobs in December which to be sure doesn't sound like much but put that in the context of an ISM Manufacturing Index that has been below 50 percent for two months running and persistently weak capital expenditures. Keep in mind the hiring diffusion index measures the breadth, not the intensity, of hiring across industry groups, so what all of the above suggests is sparse hiring across a number of sub-groups within the factory sector. This was indeed the case, particularly amongst producers of nondurable goods where firms are benefitting from sharply lower input costs.

Elsewhere, hiring was strong in business & professional services, construction, and education & health services. The reported 45,000 increase in construction is to some extent a function of unseasonably warm weather over most of the month such that seasonal adjustment factors overstated the change – this is easily verified by noting the decline in unadjusted construction payrolls was smaller than is typical for the month of December. One notable soft spot in December was retail trade, where payrolls went up by just 4,000 jobs with the 17,000 job decline in employment at apparel stores a significant drag. Given the strength of on-line sales during the holiday season, traditional brick and mortar retailers had little cause to add to payrolls in December, contrary to what have been, or at least were, long-running trends.

Average hourly earnings were flat in December (declining by one cent) and up 2.5 percent year-over-year, but this actually overstates the case given how weak earnings were in December 2014. The bottom line is there remains a sufficient degree of labor market slack to hold down growth in hourly earnings. But, as we frequently note, aggregate private sector earnings are a far better indicator of what we can expect from consumer spending, as this metric incorporates the number of people working, the number of hours they are working, and what they get paid for each hour they work. Over 2015 aggregate private sector earnings rose 4.42 percent, far ahead of inflation and the main factor behind what was healthy growth in inflation adjusted consumer spending.

The strength of hiring in 2015 reflects the strength in private domestic demand. The key question in 2016 will be whether the U.S. economy can remain the notable outlier in a world in which growth is getting harder to find.





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