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November Employment Report: Job Growth Continues At A Steady Pace

- Nonfarm employment rose by 178,000 jobs in November; prior estimates for September/October were revised down by a net 2,000 jobs.
- Average hourly earnings fell by 0.1 percent, with aggregate private sector earnings flat (up 3.88 percent year-on-year).
- The unemployment rate fell to 4.6 percent (4.641 percent unrounded); the broader U6 measure fell to 9.3 percent.

Total nonfarm employment rose by 178,000 jobs in November, with private sector payrolls up 156,000 jobs and government payrolls up by 22,000 jobs. Prior estimates for job growth in September and October were revised down by a net 2,000 jobs for the two-month period. The unemployment rate fell to 4.6 percent, reflecting a decline in the labor force and a modest gain in household employment. Hourly average earnings fell by 0.1 percent, leaving them up 2.45 percent year-on-year. Here are some brief thoughts on the November employment report.

Industry split: Payrolls in the goods producing industries rose by 17,000 jobs in November, but manufacturing payrolls fell by 4,000 jobs. Job losses in manufacturing were concentrated amongst producers of durable goods. Private service providing industries added 139,000 jobs in November, well below the recent trend rate. Retail trade payrolls are reported to have fallen by 8,300 jobs on a seasonally adjusted basis. This, however, reflects less seasonal hiring than has been the case in recent years – before seasonal adjustment, retail payrolls rose by 371,500 jobs, a 2.2 percent increase from October, but smaller than typical for the month. The holiday hiring offset comes from increased hiring amongst warehousing and delivery services.

Revisions: Over the past five years, the average revision between the first and third estimate for November job growth has been up by 79,000 jobs. This November's response rate to the BLS establishment survey was just 68.0 percent, so look for an upward revision to today's headline print.

Breadth of hiring: One disappointing element of the November data is the decline in the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. For the private sector as a whole, the index fell to 55.5 percent in November, the fourth consecutive monthly decline; in the manufacturing sector the one-month hiring diffusion index fell to 46.8 percent, the tenth straight months of a sub-50 percent reading. Broad based job growth has been a hallmark of the current expansion, so the downward drift in the hiring diffusion index

is concerning. What we do not yet know is whether this reflects shortages of skilled labor or hiring simply settling in to a more sustained pace reflecting the underlying trend rate of economic growth.

Earnings: While November saw average hourly earnings fall by 0.1 percent, this simply reflects a reversal of the calendar effects that led to hourly earnings growth being overstated in September and October. Of more relevance, hourly earnings are up 2.45 percent year-on-year, in line with other measures of wage growth. Accounting for hours worked, hourly earnings, and the increase in payrolls, aggregate private sector earnings were flat in November and up 3.88 percent year-on-year.

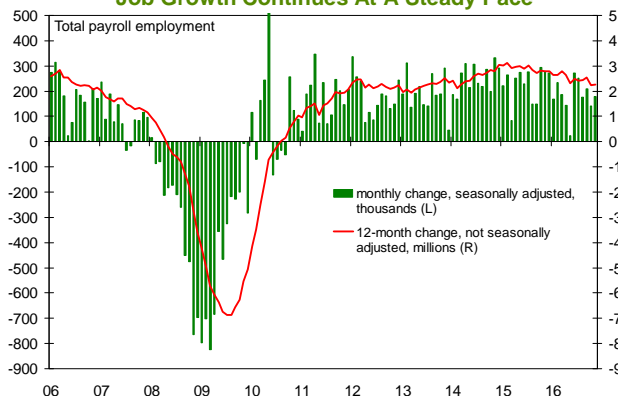
Labor market slack: The broadest measure of labor market slack, the combined number of those who are unemployed, working part-time for economic reasons, or marginally attached to the labor force, fell to 15.0 million in November, the lowest since April 2008. November's decline reflects drops in the number of unemployed and those working part-time for economic reasons. November's decline in this metric is encouraging as there had been virtually no progress to date in 2016, but, we will note we think there are still roughly 1.5 million more people in this broad group than we would see at full employment. In our view, this elevated degree of slack will continue to act as a drag on wage growth.

Unemployment rate: at 4.6 percent, the unemployment rate stands at its lowest level since August 2007 with the broader U6 measure at its lowest point (9.3 percent) since April 2008. As noted above, however, there is still a considerable degree of slack in the labor market, more so than the headline unemployment rate suggests. Some are greeting today's data as evidence wage growth is set to accelerate sharply, but we do not agree.

FOMC: All in all, the November employment report is broadly in line with expectations and will neither pose a hurdle for the FOMC in raising the Fed funds rate at their December meeting nor make them feel inclined to hasten the pace at which they anticipate further rate hikes coming.



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Diminished Breadth Of Hiring Is Concerning

