ECONOMIC UPDATE
REGIONS
January 4, 2019

December Employment Report: Labor Market Ends 2018 With A Bang

- Nonfarm employment rose by 312,000 jobs in December; prior estimates for October/November were revised up by a net 58,000 jobs
- Average hourly earnings rose by 0.4 percent in December; aggregate private sector earnings rose by 0.9 percent (up 5.26 percent year-on-year)
- The unemployment rate rose to 3.9 percent in December (3.856 percent, unrounded); the broader U6 measure was unchanged at 7.6 percent

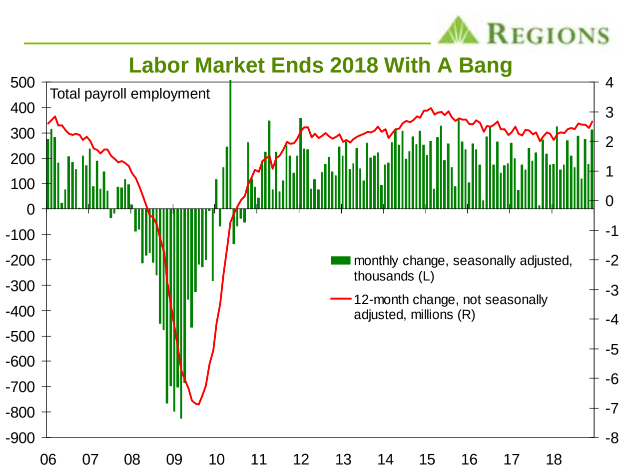
Total nonfarm employment rose by 312,000 jobs in December, thrashing our above-consensus forecast of 208,000 jobs, with private sector payrolls up by 301,000 jobs and public sector payrolls up by 11,000 jobs, Prior estimates of hiring in October and November were revised up by a net 58,000 jobs for the two-month period, with estimates of private sector job gains revised up by 42,000 jobs. Average hourly earnings logged a stronger than expected 0.4 percent increase, leaving them up 3.2 percent year-on-year. The unemployment rate rose to 3.9 percent on a jump in the labor force participation rate. For 2018 as a whole, the U.S. economy added over 2.6 million jobs, the best year for job growth since 2015. While we do think reported job growth in December is overstated, our assessment of the labor market has remained the same for some time now, i.e., the labor market remains rock solid.

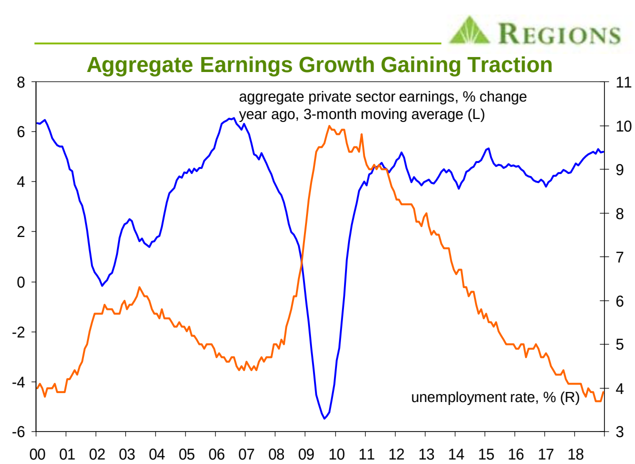
As noted above, we think reported December job growth is to some degree overstated. One thing that makes us suspicious is that the response rate to the BLS's establishment survey was 61.0 percent, the lowest for the month of December since 2005 and well below the average response rate of 72.9 percent for the first eleven months of 2018. A lower response rate leaves a larger gap for the BLS's estimates to fill – just to be clear, no judgment here, just a simple statement – and hence this initial estimate will be prone to a larger revision. Additionally, as we noted in this space last month, weather effects held down measured job growth in November and there is some payback in the December data, which is apparent in patterns in the not seasonally adjusted data for construction, retail trade, and leisure & hospitality services.

Again, though, these month-to-month quirks do not alter our assessment of the labor market. The not seasonally adjusted data show the U.S. economy added 2.660 million jobs in 2018, for a monthly average of 222,000 jobs. Also, we have often noted that one of the hallmarks of the current expansion is how broad based job growth has been, and this was again the case in December. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, jumped to 70.0 percent, the second highest reading during this entire expansion, In our weekly *Economic Preview*, we noted that we thought the sharp narrowing of hiring in November was a one-off occurrence and stated that if we were wrong on this point it would be a troubling sign for the broader economy. Those fears are, at least for another month, put to rest. It is also worth noting that the one-month hiring diffusion index for the manufacturing sector jumped to 67.1 percent in December which, along with the 32,000-job increase in manufacturing payrolls, should help allay some of the fear induced by the sharp decline in the ISM Manufacturing Index in December. Job growth in December was notably strong in education & health services (82,000), business services (43,000), leisure & hospitality services (55,000), construction (38,000), and retail trade (23,800), though we think there to be some degree of noise in the estimates for the latter three categories.

The income details in the December employment report are solid. Year-on-year growth in average hourly earnings matched the cycle-high of 3.2 percent, but of even more significance is that aggregate private sector wage and salary earnings were up 0.9 percent in December, leaving them up 5.3 percent year-on-year. This is the largest single component of personal income (there will be no data on personal income during the partial government shutdown, meaning the income details in the monthly employment reports take on added importance), and with growth in labor earnings accelerating, consumer confidence, and in turn consumer spending, should hold up amidst the turmoil in the financial markets.

The bump up in the jobless rate is not concerning as it is due to a higher participation rate. We have for some time been pointing to the number of people transitioning from not in the labor force in one month to employed in the following month as a sign that there was still a high degree of slack in the labor market. While these inflows will at some point ebb, for now they should help ease fears in some quarters that faster wage growth will spark inflation in the broader economy. All in all, the December employment report shows the economy remains on solid ground.





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