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## November Employment Report: Labor Market Firmly On Track

- Nonfarm employment rose by 228,000 jobs in November; prior estimates for September/October were revised up by a net 3,000 jobs
- Average hourly earnings rose by 0.2 percent; aggregate private sector earnings rose by 0.7 percent in November (up 4.8 percent year-on-year)
- The unemployment rate was unchanged at 4.1 percent in November (4.116 percent, unrounded); the broader U6 measure rose to 8.0 percent

After two monthly reports significantly skewed by noise from Hurricanes Harvey and Irma, a relatively noise-free November employment report shows the labor market, like the broader economy, remains firmly on track. Total nonfarm employment rose by 228,000 jobs in November, bettering our forecast of 183,000 net new jobs. Private sector payrolls were up by 221,000 jobs while public sector payrolls rose by 7,000 jobs. Prior estimates of job growth for September and October were revised up by a net 3,000 jobs for the two-month period; while this may seem a trivial revision, the details are anything but, with private sector job gains revised up by a net 30,000 jobs and public sector job gains marked down by a net 27,000 jobs. The length of the average workweek ticked higher by one-tenth of an hour, which more than offset a smaller than expected 0.2 percent gain in average hourly earnings to yield the fastest year-on-year growth in aggregate private sector earnings since January 2016.

Job growth remains notably broad based, with the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, at 63.0 percent in November. As we have often noted, broad based hiring has been one of the hallmarks of the current expansion; the last time hiring was this broad based for this long of a time was the late-1990s. We also have pointed out that what has been a short, relative to prior instances of tight labor market conditions, average workweek was an underappreciated form of labor market slack, hence we are encouraged to see the one-tenth of an hour increase in November. The obvious caveat is let's see if it sticks, and then increases further, over coming months. If a one-tenth of an hour increase seems trivial, keep in mind that each one-tenth of an hour increase in the length of the workweek is equivalent to adding over 300,000 jobs in terms of the economy's productive capacity. Hence, such a seemingly small change can have such a powerful effect on aggregate wage and salary earnings, as was the case with November's 4.8 percent year-on-year increase.

The primary factor behind our miss on our forecast of headline job growth is that retail trade significantly outperformed our expectations.

On a not seasonally adjusted basis, retail trade payrolls rose by 451,600 jobs in November, the largest unadjusted November increase since 2012. November is the most active month for retailers engage in holiday-related hiring, and our premise was that activities associated with online shopping, such as warehousing and delivery, would account for a greater share of this year's overall holiday-related hiring. As it turns out, hiring was strong in both areas, which suggests retailers are gearing up for a strong holiday sales period, in keeping with what are solid fundamentals underpinning consumer spending. The gain of 18,700 jobs reported in the seasonally adjusted data understates the type of holiday sales season retailers are expecting; we think our chart below comes much closer.

Hiring amongst the goods producing industries was notably strong in November, with a net increase of 62,000 jobs. Construction payrolls rose by 24,000 jobs, and while one could argue this total was propped up by post-hurricane rebuilding, our view is that this rebuilding is simply shifting the geographic disbursement of construction workers rather than inflating total job counts, as construction labor remains in high demand. Manufacturing payrolls were up by 31,000 jobs in November, bringing total job gains for 2017 to date to 171,000 jobs. This is consistent with other gauges of activity in the factory sector, which is clearly benefitting from rising domestic and foreign demand. One such indicator, new orders for capital goods, has shown solid growth over the past several months and this helps account for the 8,000 jobs gain in employment amongst producers of capital goods. Payrolls in mining and logging were up by 7,000 jobs in November. Amongst service providing industries, hiring was strongest in business services and education & health services.

We've consistently argued there was more slack remaining in the labor market than implied by the headline unemployment rate, and we continue to hold this view. Growth in hourly earnings, up 2.5 percent year-on-year, remains slower than would be the case in a labor market at full employment. That said, with overall economic growth remaining solid, the labor market slack that does remain is being steadily pared down and as this continues to be the case earnings growth will respond.

