ECONOMIC UPDATE

REGIONS

December 7, 2018

November Employment Report: Hiring Slows In November, Trend Still Solid

- Nonfarm employment rose by 155,000 jobs in November; prior estimates for September/October were revised down by a net 12,000 jobs
- Average hourly earnings rose by 0.2 percent in November; aggregate private sector earnings rose by 0.1 percent (up 4.7 percent year-on-year)
- The unemployment rate was unchanged at 3.7 percent in November (3.671 percent, unrounded); the broader U6 measure rose to 7.6 percent

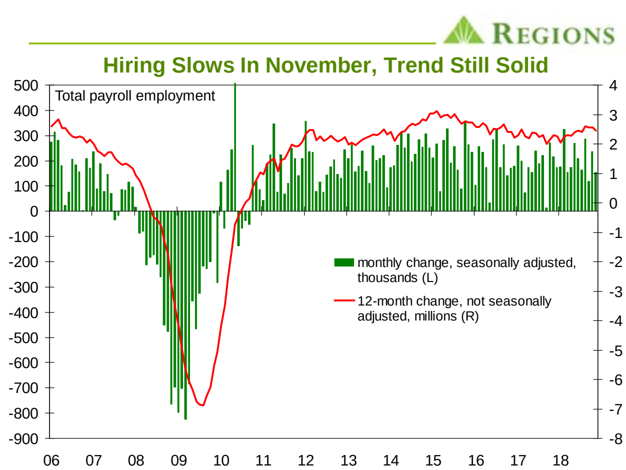
Total nonfarm employment rose by 155,000 jobs in November, below what we and the consensus expected, with private sector payrolls up by 161,000 jobs and public sector payrolls down by 6,000 jobs, Prior estimates of hiring in September and October were revised down by a net 12,000 jobs for the two-month period, with the entire downward revision accounted for by the government sector. Average hourly earnings came in softer than anticipated, with the 0.2 percent increase leaving hourly earnings up 3.1 percent year-on-year, shy of the 3.2 percent increase we and the consensus expected. The unemployment rate held at 3.7 percent with modest increases in both the labor force and household employment, while an increase in the number of those working part-time for economic reasons pushed the broader U6 measure up to 7.6 percent. While job growth softened in November, there are weather effects in the data and likely some seasonal adjustment noise around holiday season hiring in retail trade and transportation/distribution. That said, over the past 12 months the U.S. economy has added an average of 204,000 jobs per month, and even the slower pace of hiring in November is more than sufficient to keep downward pressure on the unemployment rate.

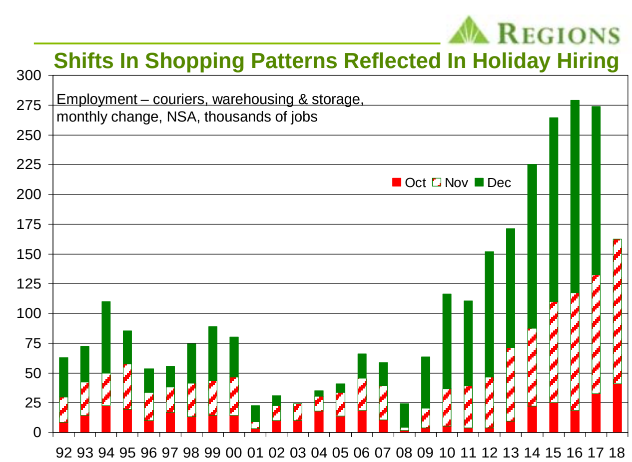
In any given November, reported job growth can be swayed by holiday hiring patterns, or, more specifically, the ability of seasonal adjustment to account for shifts in holiday hiring patterns. As we discussed in our holiday sales forecast (November's *Monthly Economic Outlook*), shifts in consumer shopping patterns over recent years have translated into shifts in holiday hiring patterns. Holiday hiring in retail trade, which typically begins in October, has slackened over the past several years; the not seasonally adjusted data show smaller monthly percentage changes in retail trade payrolls in October and November. This isn't to say there has been less holiday season hiring, just that it has migrated towards transportation and delivery operations. We show this in our second chart below, and this year's combined hiring in October and November in these areas is the strongest on record. That was also the case last year, but hiring slowed a bit in December, so we'll see whether or not that happens this year as well. The broader point is that it isn't clear whether or not the seasonal adjustment factors are adequately accounting for these shifts, which is a source of possible noise in reported November job growth.

There are also weather effects in play in the November employment report. The number of people not at work at all due to weather and the number of people working part-time due to weather were both higher than in any November since 2014, and we think this contributed to the one-tenth of an hour decline in the length of the average workweek. The not seasonally adjusted data show a larger decline in construction payrolls than is normal for the month of November, which in the seasonally adjusted data translated into a gain of just 5,000 jobs. This is another reason to suspect harsh winter storms in parts of the U.S. impacted labor market activity during the November survey period.

Hiring in November was led by education & health services (34,000 jobs), business services (32,000 jobs), and manufacturing (27,000 jobs). While overall hiring was less broad based in November than had been the case over prior months, within the factory sector hiring was more broad based, with the one-month hiring diffusion index for the manufacturing sector rising to 63.8 percent. This is consistent with the ongoing strength of the ISM Manufacturing Index, though trade policy and restructuring in the auto industry loom as downside risks to the factory sector.

While year-on-year wage growth remains at a cycle high, it nonetheless remains below past episodes in which the labor market was at or closing in on full employment. One factor we have for some time been pointing to in support of our contention that there is more slack in the labor market than is implied by the headline unemployment rate is the steady flow of people from not in the labor force in one month to employed in the next month. This inflow was again strong in November and, while it cannot persist at this rate forever, we think it has further to run. This will remain a drag on wage growth and help sustain solid job growth. The bottom line, at least for us, is that despite a soft headline print on the November employment report, the labor market remains rock solid.





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