

U.S. Data Review

- Labor market: lower unemployment; softer earnings
- Job growth: on track

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The November Labor Market

A drop of 0.3 percentage point in the unemployment rate to 4.6 percent represented the most notable aspect of the latest labor market report. The drop was not quite as large if the rate is measured with more precision (off 0.236 percentage point; 4.640 percent versus 4.876 percent). Still, the jobless rate showed considerable improvement in the latest month. The shift had both positive and negative elements. On the plus side, job growth as measured by the household survey showed respectable growth (160,000); on the disappointing side, much of the drop in unemployment was the result of individuals dropping out of the labor force (off 226,000). The shift in the size of the labor force most likely involved an element of random volatility, and an offset (and higher unemployment) could easily occur in the following month. Nevertheless, the data point to additional improvement in the labor market.

While the labor market tightened in November, wage pressure did not intensify, as average hourly earnings fell 0.1 percent. We did not view the decline as alarming, as the retreat followed a sizeable increase in the prior month (0.4 percent), suggesting that noise was playing a large role in the recent changes. The calendar configuration seems to influence the month-to-month change in average hourly earnings, and the configuration suggested firm growth in October and soft results in November. The year-over-year change in average hourly earnings totaled 2.5 percent, the low end of the recent range but still up from readings in the neighborhood of 2.0 percent in most of 2015.

Employment Report*

| | Nonfarm Payrolls (Chg., Thousands) | Private- Sector Payrolls | Unemp. Rate (Percent) | Broad Unemp. Rate (Percent) | Household Emp. (Chg., Thousands) | Labor Force | Emp.- Population Ratio (Pct.) | Median Duration of Unemp. (Weeks) | Part-Time Econ. (Thou.) | Avg. Hourly Earnings % Chg. | Avg. Workweek (Hours) |
|-----------------------|------------------------------------------|--------------------------------|-----------------------------|--------------------------------------|----------------------------------------|----------------|----------------------------------------|--------------------------------------------|-------------------------------|--------------------------------------|-----------------------------|
| Annual Average | | | | | | | | | | | |
| 2015 | 229 | 221 | 5.3 | 10.5 | 208 | 141 | 59.3 | 11.7 | 6,365 | 0.2 | 34.5 |
| 2016 | 180 | 162 | 4.9 | 9.7 | 196 | 150 | 59.7 | 10.8 | 5,980 | 0.2 | 34.4 |
| Qtrly. Average | | | | | | | | | | | |
| 15-Q4 | 282 | 281 | 5.0 | 9.9 | 329 | 322 | 59.4 | 10.8 | 5,956 | 0.2 | 34.5 |
| 16-Q1 | 196 | 181 | 4.9 | 9.8 | 464 | 484 | 59.8 | 11.2 | 6,033 | 0.3 | 34.5 |
| 16-Q2 | 146 | 128 | 4.9 | 9.7 | -74 | -135 | 59.7 | 10.8 | 6,078 | 0.2 | 34.4 |
| 16-Q3 | 212 | 186 | 4.9 | 9.7 | 290 | 342 | 59.7 | 11.0 | 5,962 | 0.2 | 34.4 |
| 2016 Monthly | | | | | | | | | | | |
| Jan. | 168 | 155 | 4.9 | 9.9 | 615 | 502 | 59.6 | 10.9 | 5,988 | 0.5 | 34.6 |
| Feb. | 233 | 222 | 4.9 | 9.7 | 530 | 555 | 59.8 | 11.2 | 5,988 | 0.0 | 34.4 |
| Mar. | 186 | 167 | 5.0 | 9.8 | 246 | 396 | 59.9 | 11.4 | 6,123 | 0.2 | 34.4 |
| Apr. | 144 | 147 | 5.0 | 9.7 | -316 | -362 | 59.7 | 11.4 | 5,962 | 0.3 | 34.4 |
| May | 24 | -1 | 4.7 | 9.7 | 26 | -458 | 59.7 | 10.7 | 6,430 | 0.2 | 34.4 |
| June | 271 | 238 | 4.9 | 9.6 | 67 | 414 | 59.6 | 10.3 | 5,843 | 0.1 | 34.4 |
| July | 252 | 221 | 4.9 | 9.7 | 420 | 407 | 59.7 | 11.6 | 5,940 | 0.4 | 34.4 |
| Aug. | 176 | 132 | 4.9 | 9.7 | 97 | 176 | 59.7 | 11.2 | 6,053 | 0.1 | 34.3 |
| Sept. | 208 | (191) | 5.0 | 9.7 | 354 | 444 | 59.8 | 10.3 | 5,894 | 0.3 | 34.4 |
| Oct. | 142 | (161) | 4.9 | 9.5 | -43 | -195 | 59.7 | 10.2 | 5,889 | 0.4 | 34.4 |
| Nov. | 178 | 156 | 4.6 | 9.3 | 160 | -226 | 59.7 | 10.1 | 5,669 | -0.1 | 34.4 |

* Preliminary readings on nonfarm payrolls are shown in parenthesis.

Source: Bureau of Labor Statistics

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Nonfarm payrolls rose 178,000 in November, essentially matching the consensus estimate and the average in the first 10 months of the year. The business-service category posted firm results, and the health-care sector continued to perform well. We were pleased with the mining industry. The change was small in an absolute sense (2,000), but it left a small net gain in the past three months and seemed to signal that the long downward adjustment might be over (23 consecutive declines from October 2014 to August 2016). Several industries posted below-average results (retail trade, financial activities, leisure), but deviations were not pronounced enough to damage the underlying pace of job growth.

The bar for Fed tightening in December is low, and the latest employment report, in our view, should easily clear the likely requirements of Fed officials.