

U.S. Data Review

- The labor market: modest job growth, but sharply lower unemployment
- ISM services: further advance from an already record level
- Factory orders: downside volatility in aircraft; otherwise, firm

Michael Moran

Daiwa Capital Markets America
212-612-6392
michael.moran@us.daiwacm.com

The Labor Market

The monthly payroll figure disappointed with an increase of only 210,000, well shy of the expected gain of 550,000. Results in the prior two months were revised upward by 82,000, but the adjustment was not sharp enough to compensate for the light reading on payrolls. Although the payroll figure was soft, the unemployment rate fell 0.4 percentage point to 4.2 percent. A surge of 1.136 million new workers as measured by the household survey easily eclipsed the increase of 594,000 in the size of the labor force, resulting in lower unemployment.

The softness in the payroll figure was broadly based. Several industries trimmed payrolls (mining, retail trade, information, private education, state and local governments), while others posted only modest advances (health-care and hospitality & leisure). Some areas posted firm results (construction, transportation & warehousing, business services), but soft sectors dominated in November.

Employment as measured by the household survey is more volatile than the payroll figures from the survey of business establishments, and thus the payroll figures get more attention. There were three instances in the early stages of the current cycle where the household figures exceeded the payroll results by more than one million, and they were not followed by catch-up payroll gains in the next month or two. While we would be skeptical about the household employment gain, we would not dismiss the drop in the unemployment rate. The employment results in the household survey are volatile, but so too are the labor force figures, and the noise in each tends to be offsetting, leaving a smoothly changing unemployment rate.

The sharp decline in the traditional unemployment rate was joined by a drop of 0.5 percentage point in the broad unemployment rate. Both the number of involuntary part-time workers and the number of marginally attached workers fell in November, reinforcing the effects of the narrow unemployment rate.

Employment Report*

	Nonfarm Payrolls (Chg., Thousands)	Private- Sector Payrolls	Unemp. Rate (Percent)	Broad Unemp. Rate	Household Emp. (Chg., Thousands)	Labor Force	Emp.- Population Ratio (Pct.)	Median Duration of Unemp. (Weeks)	Part-Time Econ. Reasons (Thou.)	Avg. Hourly Earnings % Chg.	Avg. Workweek (Hours)
Annual Average											
2019	168	150	3.7	7.2	166	121	60.8	9.2	4,408	0.2	34.4
2020	-785	-679	8.1	13.7	-742	-334	56.8	12.6	7,227	0.5	34.6
2021	555	515	5.5	9.6	486	135	58.2	16.4	5,013	0.3	34.8
Qtrly. Average											
20-Q4	213	346	6.8	11.9	762	163	57.4	18.2	6,493	0.5	34.8
21-Q1	518	489	6.2	11.0	339	-3	57.6	17.8	5,956	0.1	34.8
21-Q2	615	530	5.9	10.1	251	176	58.0	19.6	5,047	0.5	34.8
21-Q3	651	581	5.1	8.8	693	89	58.5	14.4	4,473	0.4	34.7
2021 Monthly											
June	962	808	5.9	9.8	-18	151	58.0	19.8	4,627	0.4	34.7
July	1,091	816	5.4	9.2	1,043	261	58.4	15.2	4,483	0.4	34.7
Aug.	483	504	5.2	8.8	509	190	58.5	14.7	4,469	0.4	34.6
Sep.	379 (312)	424	4.8	8.5	526	-183	58.7	13.3	4,468	0.6	34.8
Oct.	546 (531)	628	4.6	8.3	359	104	58.8	12.0	4,423	0.4	34.7
Nov.	210	235	4.2	7.8	1,136	594	59.2	12.7	4,286	0.3	34.8

* Preliminary readings on nonfarm payrolls are shown in parenthesis.

Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

While payroll employment rose only modestly, businesses increased the length of the average workweek by 0.1 hour, which will help to fuel production. The index of work time, a measure that combines the effects of changes in employment and the workweek, rose 0.4 percent, a respectable showing.

Average hourly earnings rose 0.3 percent in November, a change that would be viewed as firm in many settings. However, it is a bit light relative to other recent readings (an average of 0.4 percent in the prior 12 months) and shy of what might be expected if firms are seeking to attract workers. A separate measure of average earnings for production workers (i.e. non-supervisory) posted better results (up 0.5 percent, matching the average of the prior 12 months).

ISM Services

The service index published by the Institute for Supply Management rose 2.4 percentage points in November to 69.1 percent. The change was solid when viewed in isolation, but it was striking when viewed against the expected decline of 1.7 percentage points and the record reading in the prior month. The level of 66.7 percent in October was already noticeably above the record from previous expansions (62.0 percent in August 1997); the new reading is stratospheric compared with other peaks.

The new orders index was unchanged in November, but the level of 69.7 percent represents the best on record. With orders remaining strong, business activity also was brisk, as this component rose 4.8 percentage points to 74.6 percent. Needless to say, a record reading (chart). The employment component rose 4.9 percentage points to 56.5 percent. This was not a record, but it represents a solid performance.

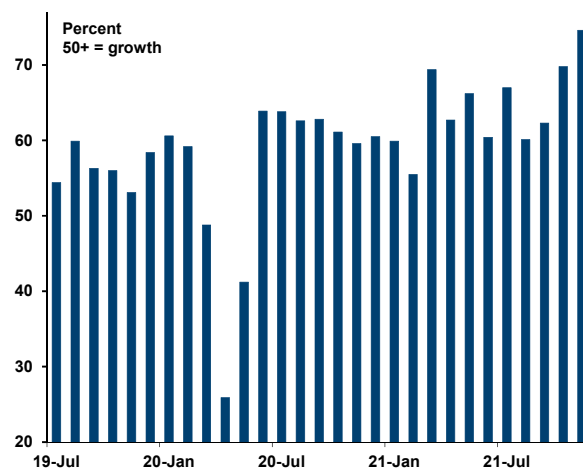
The supplier delivery index was unchanged at 75.7 percent, signaling that supply-chain difficulties remain an issue. The latest tally was not a record, but it was exceeded only by the 78.3 percent observation in April 2020, when the economy was largely shut down because of the coronavirus. Although supply-chain problems remain, price pressure eased a tad, with this index dipping 0.6 percentage point to 82.3 percent.

ISM Services: Monthly Indexes

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
ISM Nonmfg. Composite	64.1	61.7	61.9	66.7	69.1
Business activity	67.0	60.1	62.3	69.8	74.6
New orders	63.7	63.2	63.5	69.7	69.7
Employment	53.8	53.7	53.0	51.6	56.5
Supplier deliveries*	72.0	69.6	68.8	75.7	75.7
Prices	82.3	75.4	77.5	82.9	82.3

* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.
Source: Institute for Supply Management via Haver Analytics

ISM Services: Business Activity Index



Source: Institute for Supply Management via Haver Analytics

Factory Orders

Total factory orders rose 1.0 percent in October, beating the expected increase of 0.5 percent. All of the gain occurred in the nondurable area, where bookings rose 2.4 percent. Much of this advance was the result of a surge of 8.5 percent in the petroleum and coal category, which undoubtedly was heavily influenced by higher prices. Nondurable orders ex-petroleum also advanced, increasing 0.8 percent and marking their 17th gain in the past 18 months.

Orders for durable goods fell 0.4 percent, but the drop was concentrated in the volatile aircraft category. Durable bookings ex-transportation rose 0.5 percent, their 17th increase in the past 18 months.