U.S. Data Review

- Employment report: tepid payroll growth in November after October decline; unemployment rate jumped to 4.6 percent
- Retail sales: solid, if unspectacular, start in the fourth quarter

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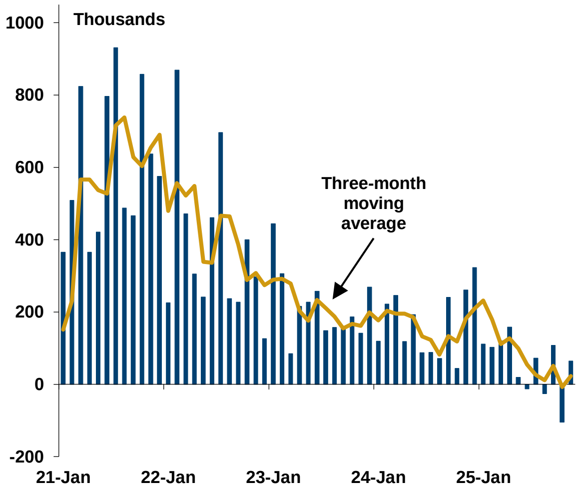
October & November Employment

- The Bureau of Labor Statistics released today a combined employment report for October/November, data that was previously delayed on account of the since-resolved government shutdown. Statistics from the payroll survey for both months are now available, although the disruption to survey efforts meant that results for the household survey were not available for October (e.g., the unemployment rate). In our view, the latest report suggests that the labor market is continuing to soften – although at a rate unlikely in the near-term to deter inflation hawks on the FOMC from raising objections to further rate cuts in early 2026 (at least until upcoming inflation data reveal additional slowing in trend or employment statistics reveal additional unsettling information about the labor market). With that said, we look for additional policy easing in 2026 beyond the current median expectation of Fed officials – a cumulative reduction of 50 basis points (cuts of 25 basis points in March and June, with a year-end target range of 3 to 3-1/4 percent, versus a year-end median expectation of 3-1/4 to 3-1/2 percent indicated in the December Summary of Economic Projections).

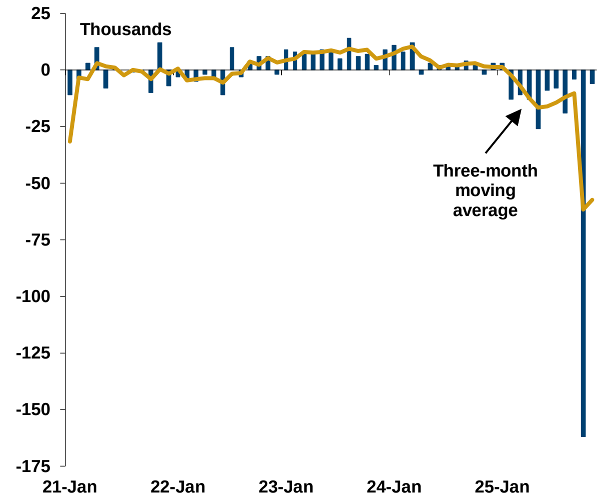
- Turning to the data, payroll growth of 64,000 in November exceeded the Bloomberg median expectation of 50,000, although the drop of 105,000 in October was notably sharper than the anticipated cooling of 25,000. On a three-month basis, payroll growth averaged 22,000 – down sharply from 209,000 in the fourth quarter of last year. At the core of the contraction in October was a plunge of 162,000 in federal government payrolls, as previously terminated employees who had been collecting severance through September were counted in October as having lost their jobs (the payroll survey removes terminated employees from headcounts only after severance compensation has ended). Ongoing targeted staff reductions by the Trump administration suggest that federal government payrolls could continue to ease in the months ahead, although we suspect that declines will be in the vicinity of the -10,000- average in the three months ended September versus the current pace of -57,000. The performance in the private sector carried a somewhat more positive tone, with job growth of 69,000 in November exceeding the Bloomberg median of 50,000. Correspondingly, the three-month average in November increased by 20,000 to 75,000, although it was well below 177,000 in 2024-Q4. On the surface, the ongoing cooling appears orderly – a predictable response to previously restrictive monetary policy – although we remain concerned that the majority of job growth is concentrated in the health care and social assistance area, which has been boosted by structural factors (an aging population) rather than cyclical forces (+64,000 in November, a pickup from the trailing three-month average of +54,600). Adding to our concern were comments by Chair Powell last week at his post-FOMC press conference wherein he indicated that payroll data since April may be overcounting job growth by approximately 60,000 per month, thereby masking more significant underlying weakness.

Change in Nonfarm Payrolls



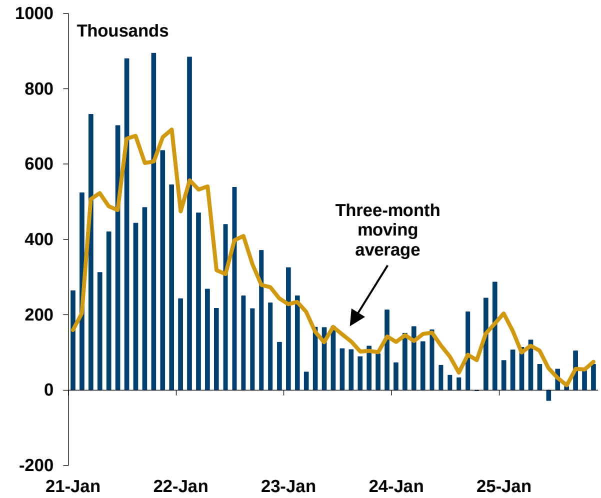
Source: Bureau of Labor Statistics via Haver Analytics

Change in Federal Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in Private Payrolls

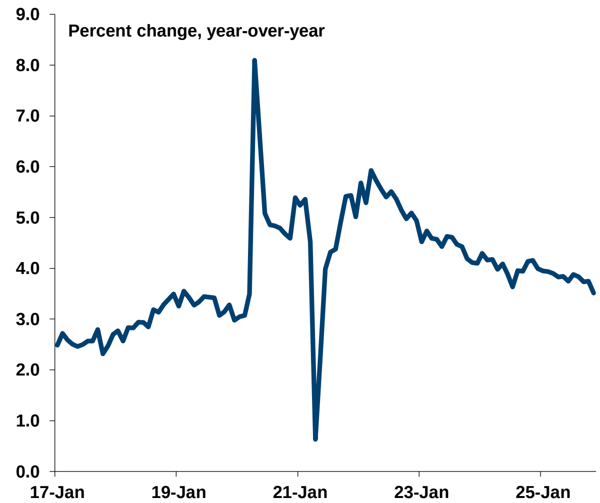


Source: Bureau of Labor Statistics via Haver Analytics

- Further augmenting the view that cooling in labor market conditions continues apace, average hourly earnings rose 0.1 percent in the latest month, with the year-over-year advance moderating by 0.2 percentage point to 3.5 percent. The latest change is 0.5 percentage point below that at the end of last year and is now unlikely contributing to undesirable price pressure in the costs of services.

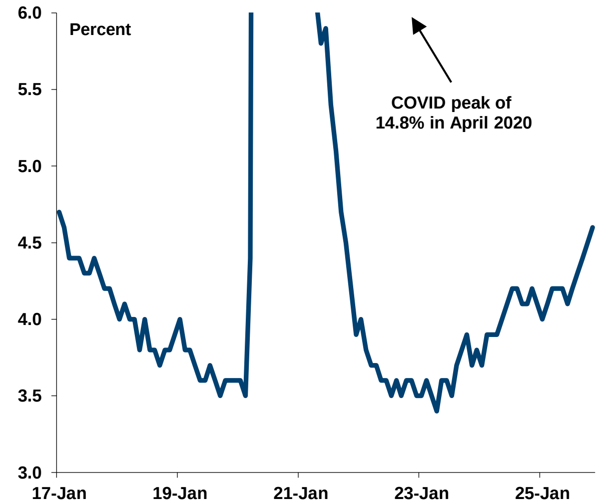
- Perhaps most notable was the November reading on the unemployment rate (U3 rate) of 4.6 percent (4.564 percent with less rounding), although we do acknowledge that the results should be interpreted cautiously on account of a warning by the BLS that November's data come with unusually high standard errors on account of low response rates and changes in composite weighting. That concern aside, portion of the advance could be tied to dislocations among government workers, although we would add that the rate is up 0.6 percentage point since January and has now breached the year-end median of 4.5 percent from the FOMC's December SEP. Additionally, the broad unemployment rate (U6 rate, which includes those working part time for economic reasons and marginally attached workers) rose to 8.7 percent from 8.0 percent in September (and 7.5 percent in January). Ultimately, movement in this variable in the next month or two will be a key determinant in whether Fed officials ease policy further in early 2026 – which at this juncture we anticipate with increasing likelihood.

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Rate*



** There is no observation for October 2025 on account of the prior federal government shutdown.*

Source: Bureau of Labor Statistics via Haver Analytics

Retail Sales

- Retail sales rounded down to no change in October, a bit softer than the Bloomberg economist survey median forecast of a 0.1 percent pickup (+3.5 percent year-over-year; note that this report was originally scheduled to publish on November 14 but was delayed due to the prior government shutdown). Activity at motor vehicles and parts dealers was a key constraint on headline results, dropping 1.6 percent (+1.2 percent year-over-year) – an unsurprising result considering that data from Wards Automotive Group indicated that sales slipped during the reference period (15.29 million units, annual rate, in October versus 16.28 million in September). Moreover, sales at gasoline stations also slipped, easing 0.8 percent (+1.9 percent year-over-year). Excluding autos and gas, retail activity rose 0.5 percent, a touch better than the expected increase of 0.4 percent (+4.2 percent year-over-year). That aside, while the latest report suggests that core spending was solid in October, we suspect that at least a portion of the results reflected higher prices. Additionally, we continue to anticipate that consumer spending will continue to moderate in the months ahead, especially as middle and lower-income households adjust to further softening in the labor market (see prior story) and ongoing tariff-related price increases (although thus far these have been somewhat less than previously feared).

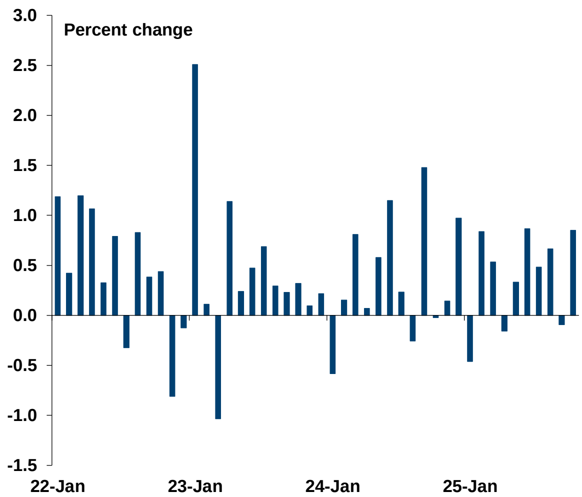
Retail Sales -- Monthly Percent Change

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Total	1.0	0.6	0.5	0.1	0.0
Ex.-Autos	0.9	0.4	0.6	0.1	0.4
Ex.-Autos, Ex.-Gas	0.9	0.3	0.6	0.0	0.5
Retail Control*	0.9	0.5	0.7	-0.1	0.8
Autos	1.2	1.6	0.4	-0.1	-1.6
Gasoline	0.7	1.3	0.3	1.9	-0.8
Clothing	1.4	1.7	0.6	-0.9	0.9
General Merchandise	0.1	0.3	0.1	0.1	0.5
Nonstore**	1.3	0.2	2.0	-0.4	1.8

** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*
*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*
Source: U.S. Census Bureau via Haver Analytics

- The retail control group (sales excluding auto and parts dealers, gasoline stations, and building materials, garden equipment & supply dealers), which provides monthly insights into goods outlays in the GDP accounts, advanced 0.8 percent in October (versus +0.4 percent expected; +5.1 percent year-over-year). The results were notably better than anticipated, and suggest that consumer spending remains on a growth trajectory in early Q4 – despite a portion of the growth likely tied to higher prices.

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

- All told, the latest retail data affirm our view that consumer spending in Q4 is likely to remain in the plus column, while decelerating from the expected firm pace in Q3. Currently, we expect real personal consumption expenditures to increase about 1.0 percent, annual rate, in the final quarter of 2025, which would be down from our forecast of +2.9 percent in Q3 (note that the initial estimate of Q3 GDP will release on December 23rd). That reading would contribute importantly to a projected moderation in GDP growth to approximately 1.0 percent (versus a forecast of +3.1 percent in Q3), although the government shutdown in the fourth quarter also factored into our expectation for a restrained performance.