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US Labor market: hope on the wage front

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Employment change (thousands, unless otherwise noted)	Dec 22	Nov 22	Oct 22	Sep 22	Aug 22
Unemployment rate (%)	3.5	3.6	3.7	3.5	3.7
Avg. hrly earn all (Monthly % Chg)	0.0	0.4%	0.3%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.0	0.1%	0.3%	0.4%	0.3%
Nonfarm employment	223.0	256	263	269	292
Total private	220.0	202	219	255	233
Goods-producing	40.0	27	49	43	43
Construction	28.0	15	13	23	9
Manufacturing	8.0	8	34	17	36
Priv. Serv providing	180.0	175	170	212	190
Wholesale trade	12.1	-1	11	7	15
Retail trade	9.0	-17	-2	-30	29
Transp. & Warehousing	4.7	-22	-8	-18	-2
Information	-5.0	22	4	8	7
Financial	5.0	11	11	3	9
Business services	-6.0	-8	13	25	29
Temporary help	-35.0	-30	-22	-23	-1
Education, health	78.0	90	77	82	82
Leisure, hospitality	67.0	79	50	111	13
Government	3.0	54	44	14	59
Federal Government	1.0	2	5	3	0

Source: Haver Analytics

- The Fed might have to wait a little longer to see the degree of cooling in the labor market that it is looking for in order to put an end to its hiking cycle, with the December data sending mixed signals. The 223K December job gain was a little above the 203K consensus expectation, but a 28K negative revision to the prior two-month job tally leaves total employment broadly where expected. Perhaps more importantly, wage growth decelerated to 0.3% m/m (vs 0.4% consensus) and the sharp November acceleration was revised down to 0.4% m/m (vs 0.6% previously). That leaves annual wage growth at a tamer, though still too hot, 4.6% pace (vs 5.0% consensus). However, in a reversal of previous months, the household survey rebounded strongly, with employment gains of 717K. That led the unemployment rate to fall to 3.5%, below the 3.7% consensus expectations, despite a two tick increase in the participation rate. Overall, this report is still consistent with the need for an additional 50bps from the Fed before a pause in the hiking cycle.

- Wage growth was much tamer than anticipated, largely due to a negative revision to the strong acceleration reported last month. Sectors that are typically busy during the holidays season (retail and transportation/warehousing) saw a reversal in wage growth in December, with monthly declines for both industries. Overall, both goods-producing and private service sectors have seen the pace of annual wage growth decline over the past few months and now stand at 4.5% and 4.6% respectively.
- Aggregate hours dropped 0.1% in December, as a 0.2% increase in goods-producing sectors was not enough to offset a 0.1% fall in private service sectors. The interest-sensitive construction sector rebounded strongly in the month, as did hours in utilities. Most other sectors, including high value-added sectors such as manufacturing and financial services, saw a decline in hours worked.
- For the second consecutive month, employment growth was accounted for by the leisure and hospitality sector, and specifically food services and bars, but headcounts in that sector are still 932K below pre-pandemic levels, while spending in that industry has more than recovered. Once again, education and health care was the other main contributor to the employment gain, while this month construction employment also increased meaningfully. Other industries mostly saw small increases, with the exception of information and professional and business services. The aggressive climb in interest rates relative to the resilient employment levels in some interest-sensitive sectors seems to confirm that those sectors may have been understaffed at the start of the year, and are now adequately staffed in the face of slower demand. Moreover, employers could be more reluctant to let staff go given the challenges faced with recruiting during the pandemic.
- In a reversal of prior months trend, the household survey, which is more volatile than the payrolls survey in a given month, showed a large gain of 717K jobs, which more than offset the prior two months losses. After stripping out the self-employed to get a measure more comparable to payrolls, including this month's gain, household survey non-farm employment is 1.2mn higher than March 2022 levels. While still not on par with the gains reported in the payrolls data, this is much stronger than it was prior to the latest revisions and what was expected based on the November report.
- Despite a two-tick increase in the participation rate, the unemployment rate fell to 3.5%. The broader U-6 measure of unemployment, which accounts for those marginally attached workers and those working part-time for economic reasons, fell two ticks to 6.5%, which is below its pre-pandemic level, and shows that the labor market remains tight.

Implications & actions

Re: Economic forecast — While the 3-month moving average trend in payrolls growth is softening, it's still well above where it needs to be to open up enough slack in the labor market to return inflation to the 2% target. Milder wage pressures than anticipated will nevertheless be welcome news for the Fed. However, with the unemployment rate falling further, the central bank will remain on track to hike by a further 50bps before pausing.

Re: Markets — Yields fell and the USD depreciated following the report on signs of weakening wage pressures.