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US Non-farm payrolls: Raising some eyebrows

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Employment change (thousands, unless otherwise noted)	Nov 23	Oct 23	Sep 23	Aug 23	Jul 23
Unemployment rate (%)	3.7	3.9	3.8	3.8	3.5
Avg. hrly earn all (Monthly % Chg)	0.4%	0.2%	0.3%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.6%	-0.1%	0.3%	0.6%	0.1%
Nonfarm employment	199	150	262	165	236
Total private	150	85	199	114	145
Goods-producing	29	-10	21	28	12
Construction	2	25	9	30	12
Manufacturing	28	-35	11	-2	-2
Priv. Serv providing	121	95	178	86	133
Wholesale trade	8	11	16	3	15
Retail trade	-38	-5	2	-6	13
Transp. & Warehousing	-5	-12	12	-27	-7
Information	10	-19	-6	-22	-19
Financial	4	-5	0	1	15
Business services	-9	2	-17	8	-29
Temporary help	-14	0	-22	-10	-17
Education, health	99	83	86	105	104
Leisure, hospitality	40	42	76	8	38
Government	49	65	63	51	91
Federal Government	0	4	5	9	10

Source: Haver Analytics

- Today’s November jobs report showed there is still some sizzle left in the labour market with wage growth accelerating and the unemployment rate edging down. Employment rose 199K, up from 150K the month prior, and above the 185K consensus was expecting. There were 35K in net negative revisions over the previous two months. This includes the rebound from auto workers coming back from strike, as well as the return of the American actors union which reached also reached a deal in November. The unemployment rate fell two notches to 3.7%, whereas the consensus expectation was for no change at 3.9%. The participation rate ticked up one notch to 62.8%. Nominal wage growth re-ignited at 0.4% m/m, up from 0.2% the prior month. Today’s report will raise some eyebrows in the FOMC and is a reminder that the labour market remains tight. But with inflation persistence less of a challenge, the Fed will remain patient. As inflation and expected inflation edge down, monetary policy will continue to become more restrictive without further tightening of nominal policy rates because real policy rates will slightly increase. This strengthens our call for the Fed to hold rates throughout most of 2024.

- The end of worker strikes buoyed payroll job gains by 37K. Auto workers comprise the bulk of that, and as a result, manufacturing jobs gains rose by +28K reversing most of the decline of 35K in the month prior. While that introduced some volatility in the report, the main drivers of payroll employment continued to come from the health care and government sectors, accounting for 70% of all jobs created in the month. Other sectors saw modest increases and retail trade was the only sector to see notable weakness with 38K jobs lost. The main takeaway from the composition of employment is that job creation continues to emanate from largely acyclical sectors with modest to weak growth in cyclical sectors. There is also likely more room to run in these acylical sectors and the Fed will be conscious of that while assessing the labour market outlook.
- The payroll survey showed wage growth accelerated at 0.4% compared to 0.2% the month prior and average weekly hours worked ticked up to 34.4 from 34.3 in the month prior. The strength in wage growth reflects a strong pick up in manufacturing wage growth, and in particular, non-durable goods manufacturing which saw very weak wage growth the month prior. Durable goods manufacturing also strengthened and has seen very strong wage growth over the pace three months, perhaps due to the strike and its influence on related industries. Overall, it seems idiosyncratic movements are affecting the wage growth numbers or its possible that wage growth reflects past changes in actual inflation, which we have found explains most of the increase in wages experienced this cycle. Nonetheless, we expect the Fed will continue to place more weight on the Atlanta Fed Wage tracker and the Employment Cost Index than these wage numbers.
- After two months of weakness, the volatile household survey showed a labour market that seemed to wake up. There were almost 750K jobs created in November, a rebound from 348K lost the month prior. But there was also a strengthening in labour supply with labour force participation increasing by 530K net entrants and the participation rate rising back to 62.8%. Prime-age participation however stayed unchanged in the month, but remains near multi-decade highs at 83.3%. We expect the FOMC to view the household survey as roughly balanced, with strong labour demand and supply. The trend continues to show a gradual cooling, albeit, at a slower place than previously believed in the last two reports.

Implications & actions

Re: Economic forecast — The November labour market data shows a still tight labour market but with inflation persistence less of a challenge, the Fed will continue to remain patient and in our view, judge that the degree of monetary restraint remains appropriate.

Re: Markets — Bond yields and the broad dollar increased after the upside surprise in the report.

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