Economic Flash!

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US Job Market Ends 2018 With a Bang

Following is a summary of the December US employment situation from the Labor Department

	Dec	Nov	Oct	Sep	Aug	Jul	3M Avg
Unemployment rate	3.9%	3.7%	3.8%	3.7%	3.8%	n/a	3.8%
Rate (3 decimals)	3.856%	3.696%	3.757%	3.694%	3.830%	n/a	n/a
Avg. hrly earn all	0.4%	0.2%	0.2%	0.3%	0.4%	0.3%	0.3%
Avg. wkly hour all	34.5	34.4	34.5	34.4	34.5	34.5	34.5
Nonfarm employment	312	176	274	119	286	165	254
Total private	301	173	281	117	267	137	252
Goods-producing	74	27	64	37	49	41	55
Construction	38	0	31	15	31	19	3
Manufacturing	32	27	29	19	11	22	29
Priv. Service prov	227	146	217	80	218	96	197
Trade, transport	34	68	24	1	54	17	42
Retail trade	24	29	0	-27	9	2	18
Information	-1	-5	7	-7	-4	1	0
Financial	6	1	10	17	9	3	6
Business services	43	44	56	52	54	39	48
Temporary help	10	11	16	13	11	10	12
Education, health	82	21	44	9	67	36	49
Leisure, hospitality	55	18	67	5	30	13	47
Government	11	3	-7	2	19	28	2
Federal Government	-3	6	2	2	1	1	2

Source: Bloomberg
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- The US job market posted a stellar performance in December, with the impressive 312K jobs created coming in miles above expectations. When combined with the upside surprise in wages, that suggests that consumer spending could be stronger than previously thought to start 2019. Today’s report alone likely won’t be enough to dissuade the Fed from taking a pause on rate hikes in Q1 as we currently expect, given other headwinds facing the US economy.

- The acceleration in hiring was evident in both goods-producing and service-providing industries, and left Q4 as the strongest quarter for employment growth since 2016. Construction employment rebounded (+38K), but an acceleration in job creation was only evident in the non-residential sector after a flat prior month. The downtrend in annual growth in residential payrolls likely reflects waning housing market activity as interest rates continue to rise. Mining payrolls also ticked up (+4K) but the gain was concentrated in segments other than oil and gas, which are feeling the negative impacts of the fall in the price of oil. On the service-providing side, while employment gains were broad-based, the acceleration in hiring was concentrated in education and health (+82K) and leisure (+55K), with health care seeing its largest employment gain on record.

- Although the notable employment gain would typically suggest a fall in the unemployment rate, barring any surge in participation, since the payrolls figures and unemployment rate are derived from different surveys, the two do not always align. Indeed, the unemployment rate rose two ticks to 3.9% on account of increased participation and a slowdown in hiring in the household survey employment figures. Employment gains in that survey tend to display increased volatility than their payrolls counterpart, and the unemployment rate remains indicative of a tight labor market, with the U-6 unemployment rate remaining steady on the month. The Fed had been looking for an increase in the participation rate, and this increase suggests that there could be some remaining labor market slack that has yet to be absorbed.

- Employers were offering loftier wage increases to attract workers amidst a dwindling supply of labor. The 0.4% wage advance sent annual wage growth back up to 3.2%, a cyclical high. However, that constructive reading is still below the highs seen at the peak of the previous economic expansion.

Implications & Actions

Re: Economic Forecast— The US economy ended 2018 on a stronger note than anticipated, with the acceleration in hiring providing ammunition for robust consumer spending in early 2019. That said, the US economy is facing headwinds in the form of slower housing market activity and softer global demand which will partly offset any bump to consumption in Q1 stemming from today's constructive report. That should be enough to leave the Fed at a standstill in Q1 unless robust data readings continue.

Re: Markets— Positive surprises for both employment and wages have been supportive for the USD and led yields to rise. The market had been pricing in limited Fed action for 2019, with the possibility of a cut, and today's report could see expectations for a rate increase build.