U.S. EMPLOYMENT GAINS MODERATE, LABOR FORCE CONTINUES TO GROW

*The December U.S. Employment Report indicated continued solid labor market performance: nonfarm payrolls grew moderately following their robust rise in November - slightly below expectations - and average hourly earnings growth decelerated to 2.9%, a 1.5-year low, but the unemployment rate remained at its 50-year low and the labor force grew robustly. The remarkable streak of job gains continues:

- U.S. establishments added a net new 145k jobs in December, below expectations (consensus: 160k), and back revisions totaled -14k (Nov: -10k to 256k, Oct.:-4k to 152k). Nonfarm payroll growth averaged 176k in 2019, compared to 233k in 2018 and 179k in 2017, and led to further declines in the unemployment rate even as the measured labor force continued to grow with new entrants (Chart 1).

- The unemployment rate was unchanged at 3.5% in December as the labor force increased by 209k in the Household Survey, reflecting a 267k increase in employment and 58k decline in the level of unemployment (Chart 2). We expect the unemployment rate to fall to 3.3% by the end of 2020.

- Average hourly earnings (AHE) for private employees increased by 0.1% m/m, lowering its y/y change to 2.9% from 3.1%, the smallest gain since July 2018 (Chart 3). The persistent deceleration in AHE growth reflects the elastic supply of labor that suggests more room for employment to rise. We emphasize that with low inflation, real (inflation-adjusted) average hourly earnings are rising near 2%, boosting consumer purchasing power and lowering the probability of recession (Solid US consumption to sustain the expansion, November 19, 2019).

U.S. employment has increased for 111 consecutive months by a cumulative 22 million, reflecting the remarkable resilience and durability of the U.S. economy. The persistently strong demand for labor, and attractive wages and benefits have pulled many persons off the sidelines, continuously defying the once widely accepted assessment of a tight supply of labor - the labor force grew by 1.4 million in 2019. After 10.5 years, favorable economic conditions are finally reaching a broad swath of demographic groups. These developments have lifted household confidence and supported consumption and residential investment. Even as employment has grown, labor productivity has picked up; this is remarkable.

The Household Survey was strong. The overall labor force participation rate remained at 63.2% in December, near its 6.5-year high, and increased to 63.1% in 2019 from 62.9% in 2018 (Chart 4). Since 2016, the overall labor force participation rate has defied expectations of continued declines, reflecting increases in the prime-working age (25-54) participation rate, which increased to 82.9% in December, a 10-year high (Chart 5). We expect further increases in 2020. Voluntary job quits increased in December, reflecting confidence in job-finding prospects (Chart 6).

The goods sector shed 1k jobs in December, as a solid 20k increase in construction employment was offset by 12k and 8k declines in manufacturing and mining employment, respectively. Goods-producing jobs increased by only 176k in 2019, compared to 63k in 2018: construction (2019: +151k, 2018: +307k), manufacturing (2019: +46k, 2018: +264k), mining (2019: -24k, 2018: +63k). We expect hiring in the
goods sector to remain weak in 2020 reflecting sluggish industrial activity, and issues in the oil and gas sector that are being exacerbated by low oil prices.

The service sector added 140k jobs in December, bringing its 2019 total gain to 1.8 million (2018: 2 million). In December, retail (+41k) and leisure and hospitality (+40k) hiring boosted overall gains, and transportation and warehousing (-10k) and professional business services (-10k) sectors were relatively sluggish. The strong gain in retail employment in December bodes well for holiday shopping performance.

Aggregate hours worked increased by only 1.1% q/q annualized in Q4, and suggests that the improvement in productivity growth continued into year-end. Aggregate weekly payrolls that combines employment, average weekly hours worked and average hourly earnings, and serves as a proxy of total incomes, increased by 3.8% yr/yr, the lowest since January 2017, but it points to continued consumption growth that is enough to offset manufacturing’s struggles (Chart 7).
Chart 2: Unemployment Rate

Civilian Unemployment Rate: 16 yr +
SA, %

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 3: Average Hourly Earnings for Total Private Industries (year-over-year, %)

Average Hourly Earnings: Total Private Industries
% Change - Year to Year   SA, $/Hour

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 4: Overall Labor Force Participation Rate

Civilian Participation Rate: 16 yr +
SA, %

Source: Bureau of Labor Statistics/Haver Analytics

Source: Annual data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 5: Labor Force Participation Rate for the Prime Working-Age Cohort

Labor Force Participation Rate: 25-54 Years
SA, %

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 6: Voluntary Job Leavers (as Share of Unemployed)

Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 7: Weekly Payrolls Index and Consumption (year-over-year, %)

Sources: BEA, BLS/Haver

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