ECONOMIC UPDATE

REGIONS

December 7, 2012

November Employment Report: Lower Unemployment Rate – For The Wrong Reason . . .

- Nonfarm employment rose by 146,000 jobs in November; estimates for September and October were revised down by a net 49,000 jobs.
- Average hourly earnings rose by 0.2 percent in November, with aggregate earnings up by 0.3 percent (up 3.51 percent year-over-year).
- The unemployment rate rose to 7.7 percent (7.746 percent unrounded); the broader U6 measure fell to 14.4 percent.

Total nonfarm employment rose by 146,000 jobs, a surprisingly large gain in light of the anticipated "Sandy effect." The BLS reports that Sandy "did not substantially effect" either the payroll or the household survey data. Prior estimates for the September and October period were revised down by a net 49,000 jobs, but this downward revision was primarily felt in the government sector, where prior estimates were revised lower by a net 48,000 jobs. November's job gain is in line with average monthly gains of 157,000 over the past twelve months.

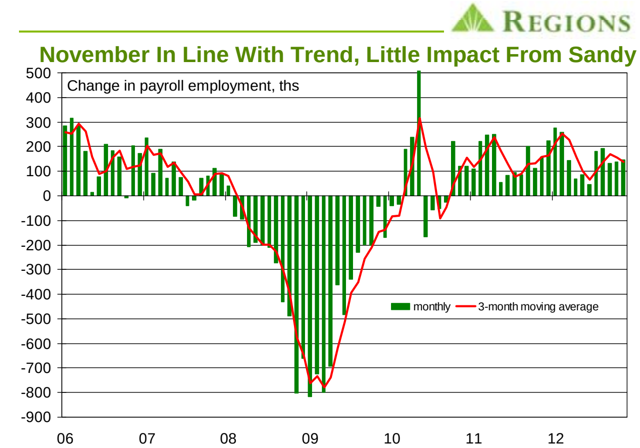
The decline in the unemployment rate will no doubt be cheered, at least by those who only scan the headlines. The reality, however, is that it was a decline in the labor force that pushed November's unemployment rate lower. The labor force fell by 350,000 in November while household employment fell by 122,000. There was a decline in the number of those working part-time for economic reasons which, along with the decline in the labor force, pushed the U6 measure of unemployment and underemployment down to 14.4 percent, the lowest reading on this metric since January 2009.

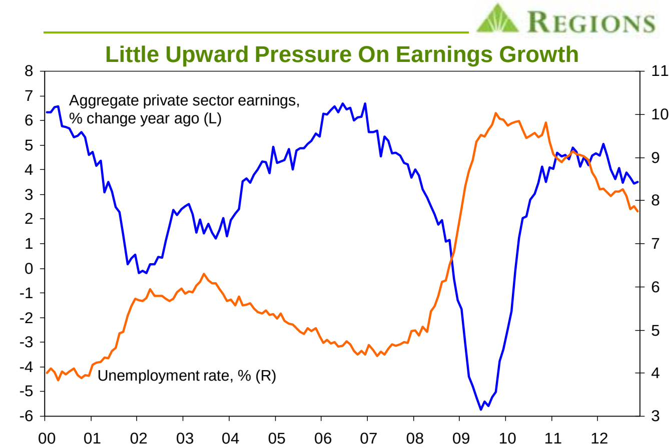
As to the impact of Sandy, it is worth noting that the reference period used by the BLS is the pay period that includes the 12th day of the month. To be counted as employed in the payroll survey, one needs only to be paid for any single day in the pay period. This helped mitigate any effects on payroll employment. What is odd, however, is that average weekly hours would normally be more impacted by impaired work schedules, but are reported to have remained steady in the November data. In the household survey, those absent from work due to severe weather, even if for the entire pay period, are still counted as employed. So, while the BLS reports 369,000 people were absent from work due to inclement weather in November, they are still counted as employed (the average for this metric for the month of November over the previous 35 years is 64,000). It is possible, if not likely, that next month will bring revisions to the payroll data that reflect more of an impact from Sandy. The payroll data were also likely impacted by a quirk in the calendar, with an earlier Thanksgiving leading to earlier hiring in retail trade, which shows up in the 53,000 retail jobs added.

That said, we always emphasize the importance of looking at longer term trends in the data as opposed to the data from any one month, and any impacts from Sandy would ultimately be "evened out" in the longer term trend. As such, the November payroll data are in line with the trends seen over the past several months. While monthly job gains have averaged 157,000 per month over the past year, three nonetheless remains a high degree of labor market slack which is acting as a drag on growth in earnings, as seen in the second chart below. On a year-over-year basis, aggregate private sector earnings have grown at an average pace of 3.5 percent over the past several months. Once we account for inflation, however, earnings growth slips to a meager 1.5 percent pace.

It will take a sustained period of faster job gains than we have seen over the past year in order for there to be meaningful upward pressure on earnings. To put it in terms Chairman Bernanke might use, the rate of resource utilization remains so low, even though it is improving, that there is simply little, if any, upward pressure on wages. This trend is reflected in data from other venues, such as the sharp decline in unit labor costs seen in the Q3 productivity data. The meager pace of earnings growth is acting as a considerable drag on overall personal income growth, which in turn will impact consumer spending.

On the whole, the November employment report is a mixed bag and we will watch for any Sandy-related revisions. Either way, the November employment report does not alter what is by now a familiar, and unsatisfactory, refrain – further progress in paring down the considerable slack that remains in the labor market, but at a frustratingly slow pace. Both job and earnings growth will remain sluggish through early 2013 but should pick up over the latter half of 2013 and into 2014.





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