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December Employment Report: 2012 Ends With So-So Headline, Better Details

- Nonfarm employment rose by 155,000 jobs in December; estimates for October and November were revised up by a net 14,000 jobs.
- Average hourly earnings rose by 0.3 percent in December, with aggregate earnings up by 0.74 percent (up 3.83 percent year-over-year).
- The unemployment rate held at 7.8 percent (7.849 percent unrounded); the broader U6 measure held at 14.4 percent.

Total nonfarm employment rose by 155,000 jobs in December, with private sector payrolls up by 168,000 jobs and government payrolls falling by 13,000 jobs. Previously released estimates for October and November were revised up by a net 14,000 jobs for the two-month period, with private payrolls revised up by a net 38,000 jobs and government payrolls revised lower by a net 24,000 jobs. December's headline job growth came in a bit below expectations, particularly for those who rushed to up their estimates in the wake of the ADP report earlier this week, but the underlying details of the December report are far more encouraging, particularly the details on earnings

The unemployment rate held at 7.8 percent but, at 7.849 percent, is but a rounding error away from 7.9 percent. Note that with today's release, the BLS published revisions to the household survey data going back to 2008. These revisions did not result in any material changes to the path of the unemployment rate, but the rate for November 2012 was revised up by a tenth of a point from the originally reported 7.7 percent. After dropping in November, the labor force grew by 192,000 in December, outpacing the 28,000 gain in household employment. There were some minor revisions to other components of the household data, and as of December the BLS reports 7.918 million people working part time for economic reasons (down by 220,000 from November) and 4.766 million unemployed for 27 weeks or more. The broader U6 measure of unemployment/underemployment stayed at 14.4 percent in December.

Despite a so-so headline number, the payroll data paint a healthier portrait of the labor market in December. Private sector payrolls were up by 168,000 with job counts for October/November revised higher. Perhaps more significantly, the diffusion index, which measures the breadth of hiring across private sector industry groups, jumped to 63.2 percent in December, with the six-month index rising to 66.4 percent. As we anticipated, payrolls in goods producing industries posted a solid gain in December, with construction payrolls up by 30,000 jobs and

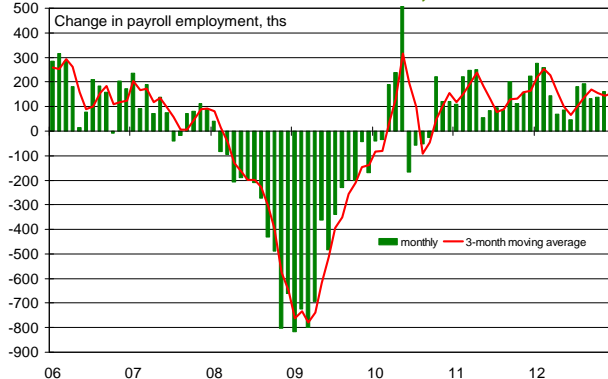
manufacturing payrolls up by 25,000 jobs. Retail payrolls are reported to have fallen by 11,000 jobs in December, but at the same time the prior estimate for November retail hiring was revised up to show a gain of 63,000 jobs (originally 53,000), with these patterns reflecting an earlier than normal Thanksgiving in 2012.

It was the growth in goods producing industries that pushed the average length of the workweek up to 34.5 hours in December and contributed to the 0.3 percent gain in average hourly earnings. Note that a one-tenth of an hour increase in the average workweek is equivalent to adding over 300,000 jobs, so this seemingly small change in hours worked can have a powerful effect on growth in aggregate earnings. This is apparent in the December data, with aggregate private sector earnings up by 0.74 percent following a like-sized gain in November, the best back-to-back performance since 2006. Moreover, after slowing sharply over the second and third quarters of 2012, aggregate earnings growth rose at an annualized rate of 3.78 percent in Q4. It is critical that income growth continue to improve over the course of 2013, though the impact of better income growth will be somewhat diminished by the increase in payroll tax rates that took effect January 1.

With the release of the January payroll employment data on February 1, the BLS will publish the annual benchmark revisions, which will put the level of payroll employment higher as of March 2012. For now, though, the preliminary data show the addition of 1.835 million payroll jobs in 2012 (an average of 153,000 per month), eerily similar to the 1.840 million jobs added in 2011. To this point, 2012 looked a lot like 2011 and 2010 – solid gains early in the year followed by a sharp slowdown in the pace of job growth and a late-year reversal, with this pattern reflecting issues with seasonal adjustment. After what may be a shaky Q1, we expect the pace of job growth to improve over the course of 2013 with over 2 million net new payroll jobs, but the key will be the pace at which earnings, and in turn total personal income, grow in 2013.



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Earnings Growth Shows Signs Of Life As 2012 Ends

