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A Viewpoint from Joshua N. Feinman

U.S. Employment Report

Belying other recent indicators hinting that the economy has lost some zip, the employment report for December suggests momentum in labor markets remains robust.

Nonfarm payrolls rose by 312,000 in December, well above expectations, and estimates for the prior two months were revised up a total of 58,000. The gains were widespread across industries. For all of 2018, the average monthly job gain was 220,000 – the strongest pace since 2015, and far above estimates of what is needed to keep up with trend demographics, keeping the labor market on a tightening trajectory.

The average workweek recovered its slight dip from the prior month, and together with the strong growth in jobs pushed the index of aggregate hours worked up more than 2% at an annual rate in the fourth quarter, consistent with our expectation of gross-domestic-product (GDP) growth of about 2.5%.

Average hourly earnings rose a firm 0.4% in December, and were revised up 0.1% in October, bringing the increase over the past twelve months to a cycle high of 3.2%. That reinforces the message of other metrics in suggesting that labor costs are accelerating with a bit more pep recently, albeit still moderately and to a pace that is broadly consistent with (but not threatening a material overshoot of) the U.S. Federal Reverse's (Fed's) inflation target.

The headline unemployment rate (U3) rose 0.2% to 3.9% in December, though this was due not to a slowing in the household survey's estimate of employment gains, but to a jump in the labor force, as the participation rate edged slightly above the upper end of the range it has been in for the past few years. Increasing participation among prime-age people – likely lured by improving job prospects – has been roughly offsetting the effects of retiring baby boomers, slowing the tightening of labor markets. But those markets remain tight, as evidenced by the broader U6[1] measure – which held steady last month, despite the rise in the headline unemployment rate – and by a snapback in the quit rate to near cycle highs.

Bottom line: At a minimum, the employment report ought to quell unwarranted fears that the economy is on the brink of an abyss. Still, we do think the U.S. economy is on course for a moderation, reflecting the impact of gradually waning fiscal stimulus, the recent tightening of financial conditions, and trade tensions/global softening. Some moderation is desirable, though, making it more likely that the economy can avoid the excesses that have felled past expansions. But it raises risks. And given the somewhat conflicting signals sent by recent economic indicators, the volatility in financial markets, and unknowns on the trade front, the outlook is

In a nutshell

- Momentum in U.S. labor markets remains robust.
- The employment report ought to quell unwarranted fears that the economy is on the brink of an abyss.
- We still think that some modest additional Fed hikes will be needed, but the Fed can afford to be patient.

[1] U6 extends the unemployment rate U3 by discouraged workers and those who work part-time, but seek full-time employment.

especially cloudy. Against this backdrop, Fed policymakers are apt to adopt a more cautious, "wait-and-see" approach; with inflation not threatening to breach target, and policy much closer to neutral than it was a few years ago, policymakers can afford to be patient. Though we still think that some modest additional Fed hikes will be needed to help nudge the economy in for a soft landing[2], most of the work has likely been done, and there is no sense of urgency.

[2]A soft landing is when an economy's rate of growth slows in a controlled fashion without major disruptive effects on employment, external balances etc.

Glossary

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Headline unemployment rate (U3)

Official unemployment rate (U3) occurs when people are without jobs and they have actively looked for work within the past four weeks.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

U.S. Federal Reserve Board (the Fed)

The **U.S. Federal Reserve Board**, often referred to as "**the Fed**", is the central bank of the United States.

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