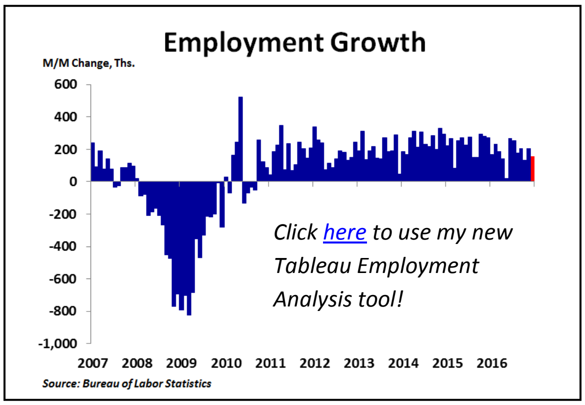
Ed's Eye on the Economy

January 6, 2017

December Employment Report

Temporary help services and accounting services constrain job growth

Job growth slowed in December as the economy generated just 156K new jobs, down from the 204K increase in November and less than the 175K consensus forecast. However, the combined 19K upward revisions for October and November exactly offset the 19K miss in December. The rate of job growth fell to 1.5% y/y, the slowest in almost 4 years.

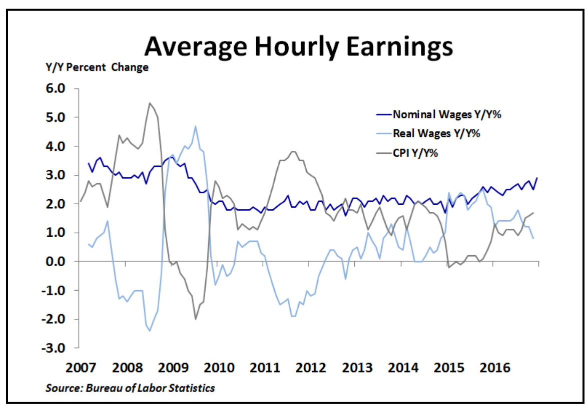


Healthcare services led the way in December as 63K new jobs were created, nearly double the 35K increase seen in November. Coming in a very distant second was leisure and hospitality services, which added 24K new positions. Next up was manufacturing, which created 17K new jobs, the first increase in five months. Professional and business services, generally one of the better performing sectors, added just 15K new jobs, held back by big declines in accounting and temporary help services. Transportation and warehousing had another solid month, putting 15K more people to work. Financial services also had a good month, increasing staff by 13K, likely reflecting the improved outlook for lending and bank profits amid an increase in interest rates following the election. Government payrolls also expanded, as 12K more people found work in the public sector, primarily in local government. Retail trade had a fairly weak month, creating just 6K new jobs, which may have been due to more people buying holiday gifts online instead of at stores.

On the downside, temporary help services fell 15K, which is very unusual during the holidays, again likely due to the growth in e-commerce. Declines were also seen in other services, information services and construction.

The unemployment rate rose to 4.7% from 4.6% as only a one-third of the 184K people who entered the labor force found jobs, according to the household survey.

Average hourly earnings rose a sharp 10 cents, or 0.4%, from the prior month, bringing the annual growth rate to 2.9%, the strongest since the recession ended. However, with inflation moving up recently, real wage growth has dipped to just 0.8% y/y, the worst rate of growth in two years.



The stock market rose mildly after today's report as rising wages portends stronger consumer spending, but also higher labor costs. The Fed next meets at the end of this month. All eyes will be on the December inflation report, which will be released on January 18, for clues about the near term path for interest rates.

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