S&P Global Ratings

November's Jobs Rebound Likely Overstates The U.S. Labor Market's Strength

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The labor market in the U.S. may not be as robust as the November jobs report would suggest at first glance.

That report from the Bureau of Labor Statistics showed that the U.S. economy added 227,000 jobs last month, a strong rebound from the 36,000 jobs gained in October. As we'd anticipated, the unwinding of hurricane effects in October and the end of the Boeing machinists' strike partly helped to lift payroll jobs.

And the three-month average for job gains--smoothing out the recent volatility--was 173,000. That's better than the six-month average of 143,000 and only a step down from the 186,000 average for the prior 12 months.

The November rebound allayed fears of a rapid deterioration in the labor market, but it also likely overstates its strength. There are several reasons for that:

1. Job gains remained highly concentrated in a few sectors--particularly in health care and social assistance, government, and leisure and hospitality. Together, those sectors are responsible for almost 75% of overall payroll growth over the past year.
2. Payrolls declined for the second straight month in the retail sector, casting some uncertainty over the outlook for consumers heading into the holiday season.
3. And the unemployment rate (which comes from a separate household survey) edged up by 0.1 percentage point, to 4.2%--for the wrong reasons. Labor supply declined for a second straight month, and the number of people who were employed fell by an even larger amount over the same period.

Other indicators, such as the Job Openings and Labor Turnover Survey (JOLTS), also remain consistent with a gradual cooling in the labor market. Job openings continue to trend lower (past the monthly volatility), which is also supported by the timelier Indeed job postings and by small business sentiment, as reflected in the National Federation of Independent Business (NFIB) survey.

Both the quit rate and the hiring rate in JOLTS are below their pre-pandemic levels, suggesting that workers are less eager to leave their jobs voluntarily, while employers are becoming more selective.

Contacts

Satyam Panday
Chief Economist, U.S. and Canada
San Francisco, CA
(718) 578-1636
satyam.panday
@spglobal.com

The Federal Reserve might be somewhat concerned by another 0.4% month-over-month gain in average hourly earnings--this translates to an annual rate that's still at 4.0%. But it's not a huge concern for now, since it's consistent with the 2% inflation target and the business sector's nearly 2% labor productivity growth over the last 12 months.

In addition, the labor market is no longer offering the large wage premium for job hopping that it was just 12 months ago. It's indicative of a labor market that has come into balance and may no longer be a meaningful source of inflationary pressure at the margin.

Chart 1

There's no longer a significant wage premium for job switching

Data reflects 12-month moving averages of monthly median wage growth in both categories; wages are computed on an hourly basis. Sources: Current Population Survey, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta calculations, and S&P Global Ratings calculations (source data updates can be found at www.frbatlanta.org/chcs/wage-growth-tracker).

The Fed's pace of easing has already slowed, and recent comments from Fed officials continue to hint at additional, but small, rate cuts. The components of CPI and PPI inflation (published after last week's employment report), which feed into the Fed's preferred inflation gauge (PCE), weren't bad enough for the central bank to change course--although it has become a closer call.

We maintain our base case for now that the Fed will deliver a 25-bp cut at next week's policy meeting, before it pauses and reassesses. The tradeoff between the unemployment rate and inflation is starting to get interesting as we approach a new year (and the start of a new administration).

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