December Job Gains Below Forecast

The October and November employment data had been distorted by the General Motors strike, but with the labor dispute in the rearview mirror, December was expected to provide a clearer picture. This morning, the December labor report turned out to be a bit weaker than expected, but the payroll miss wasn’t big and a positive labor market outlook remains intact. Nonfarm payrolls added +145k new jobs last month, slightly below the expected +160k forecast while -14k jobs were subtracted from the previous two month’s count.

For all of 2019 (subject to revision) there were 2.11 million jobs created according to the company survey, for an average of +176k per month. Although below the 2018 average of +233k, and the slowest annual pace of job creation since 2011, there are plenty of legitimate reasons for the weakening. First and foremost, December marked a record 111 straight months of uninterrupted job gains, while the U.S. economy enters its 127th month of expansion …so most people are working already, and some moderation is to be expected. The economy did slow in 2019, so again, a lesser pace of hiring makes sense. And, the BLS survey was taken during the time U.S. companies were still digesting the initial details of the China trade agreement. If an agreement is signed next week, more concrete details should emerge and clarify the outlook.

In the separate household survey, the headline unemployment rate held steady at a 50-year low of 3.5% as +209k Americans entered the labor force and +267k found jobs. The broader U6 measure (which includes all those working part-time jobs but preferring fulltime employment, as well as those not actively seeking work …but willing and able to work if a suitable job presented itself) dropped from 6.9% to 6.7%, the lowest in the 27-year history of the series. It’s clearly a tight labor market, but for whatever reason, there isn’t much wage pressure. Average hourly earnings growth actually fell from a +3.1% year-over-year pace to +2.9%, the lowest in 17 months after peaking at +3.4% last February. The reason for the wage decline is partly attributed to the fact that a majority of the new jobs created were in lowering paying retail and hospitality sectors. Nevertheless, less wage pressure suggests lower overall inflation.

Bonds have rallied a bit in early trading (pushing yields slightly lower), while the major stock indexes are yet again in record territory. Today’s slightly weaker, but more than adequate employment report supports the idea that the Fed will not be forced to raise interest rates this year, while lower wage inflation gives Fed officials some latitude to cut later if economic weakness were to assert itself.
Market Indications as of 10:40 A.M. Central Time

DOW       Down 56 to 28,900 (HIGH: 28,956)
NASDAQ    Up 14 to 9,217 (NEW HIGH)
S&P 500    Up 5 to 3,297 (NEW HIGH)
1-Yr T-bill current yield 1.53%; opening yield 1.55%
2-Yr T-note current yield 1.56; opening yield 1.58%
5-Yr T-note current yield 1.63%; opening yield 1.65%
10-Yr T-note current yield 1.82%; opening yield 1.86%
30-Yr T-bond current yield 2.28%; opening yield 2.33%