Conflicting Labor Report to Test Fed Resolve

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Fed officials are generally expected to announce an increase in the QE taper pace on December 15th, but this morning's apparently weak (but maybe not so much) November employment report should introduce some lively discussion. The headline nonfarm payroll number (yet again) fell well short of forecasts; however, the employment data within the separate household survey painted a conflicting, and much brighter picture.

Non-farm payrolls (which are calculated from the establishment survey) rose by just +210k last month, missing the +550k median Bloomberg forecast. Previous month revisions added another +82k jobs. Now 21 months into the pandemic, company payrolls remain 3.9 million *below* pre-pandemic levels. Payroll growth through the first 11 months of 2021 has averaged +555k. This number would be stunning in any other year, but is seen as a disappointment amid record numbers of available jobs.

Seasonal adjustments, intended to factor-out noise and present a better indication of underlying job growth, may actually be creating more distortion. The unadjusted payroll number for November was +778k, while October's unadjusted gain was +1.576 million; huge numbers *buried* in BLS data.

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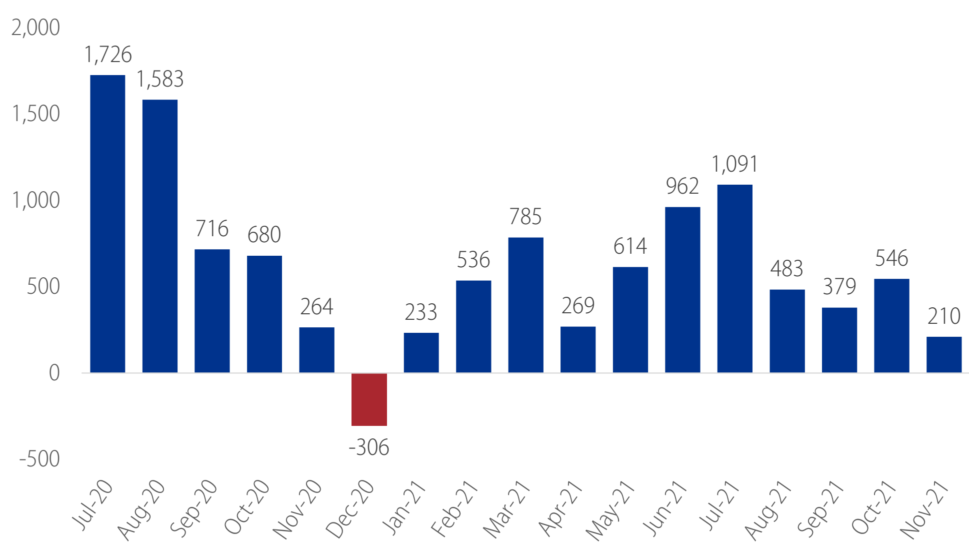
Bloomberg reported that the 3.9 million jobs missing since February 2020 are comprised entirely of non-degreed workers. The number of employed college-educated workers is now +2% above pre-pandemic levels, while employment for those without a college degree is down -5%. However, the unemployment rate for those with *without a high school degree* has improved from 9.2% to 5.7% over the past 12 months.

Non-Farm Payrolls Total Change *(in thousands)*



Source: Bureau of Labor Statistics.

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The separate household survey showed 1.1 million jobs added in November, and a healthy 600k workers returning to the labor force. This combined to drive the headline unemployment down from 4.6% to 4.2%, fast approaching the 3.5% rate from February 2020. The number of unemployed workers fell by -542k last month to 6.9 million, roughly 1.2 million above the pre-pandemic count. The number of working-age Americans outside the labor force (neither employed nor looking for work) dropped by -473k to just under 100 million. By contrast, there are 155.2 million employed. The employment-to-population ratio climbed by a solid +0.4% to 59.2%, still below the 61.1% level of February 2020, but moving quickly in the right direction.

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3.6 million were unable to work in November because their employer had closed or lost business due to the pandemic, down from 3.8 million in October. The very recent emergence of the Omicron variant could alter this path in the coming months.

The leisure and hospitality sector added +23k jobs in November following a +170k gain in October, but remain -1.3 million below the February 2020 count. The number of retail jobs actually fell -20k in November after adding +38k in October, and remain -176k below the February 2020 total. Government jobs fell for the fourth straight month after a -25k drop in November. Manufacturing added an encouraging +31k jobs, supporting the notion that the supply chain problems may be starting to clear a bit.

The jobs themselves have returned, so the Fed has arguably met its employment mandate. Their other mandate, stable inflation, is the more pressing issue right now, and one they'll address at the December FOMC meeting.

Nursing and residential care facilities shed -11k jobs. According to the BLS, health care employment is -450k below pre-pandemic levels due almost entirely to declines in nursing. *This could be a problem if the winter virus wave proves severe*.

Average hourly earnings rose by +0.4%, and +4.8% on a year-over-year basis. Although this is slightly below the median forecast, wages remain significantly elevated.

There is a lot to unpack in the November report. The two surveys conflict, the headline is weak, the underlying data is solid and seasonal adjustments are suspect, but on the whole, *the report is unlikely to change minds of Fed members*. The jobs themselves have returned, so the Fed has arguably met its employment mandate. Their other mandate, stable inflation, is the more pressing issue right now, and one they'll address at the December FOMC meeting.

Equity futures were up big on the initial headline, but have since retreated into negative territory with the realization that the Fed is unlikely to alter its path.

Market Indications as of 9:56 A.M. Central Time

DOW	Down 227 to 34,412 (HIGH: 36,432)
NASDAQ	Down 306 to 15,075 (HIGH: 16,057)
S&P 500	Down 38 to 4,539 (HIGH: 4,705)
1-Yr T-bill	current yield 0.26%; opening yield 0.24%
2-Yr T-note	current yield 0.63%; opening yield 0.61%
3-Yr T-note	current yield 0.89%; opening yield 0.88%
5-Yr T-note	current yield 1.18%; opening yield 1.19%
10-Yr T-note	current yield 1.42%; opening yield 1.43%
30-Yr T-bond	current yield 1.75%; opening yield 1.75%