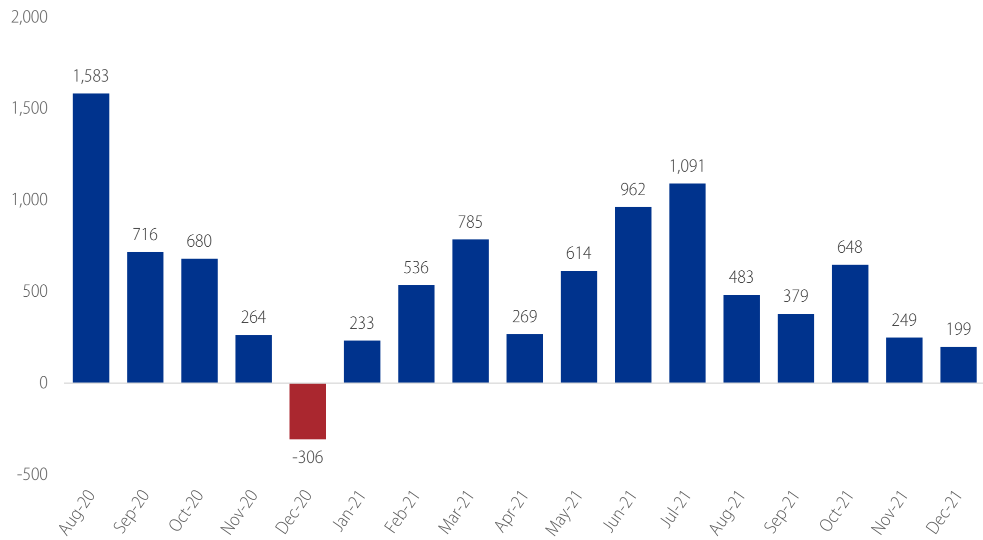
Mixed Labor Report Keeps Fed on Track

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Nonfarm payrolls rose by only +199k in December, the lowest monthly add since last December and less than half of the median forecast. October and November payrolls were revised upward by a combined +141k, which brings the total report count closer to forecast and highlights (yet again) how challenging it's been for analysts to get a handle on the job market during the pandemic.

Non-Farm Payrolls Total Change (in thousands)

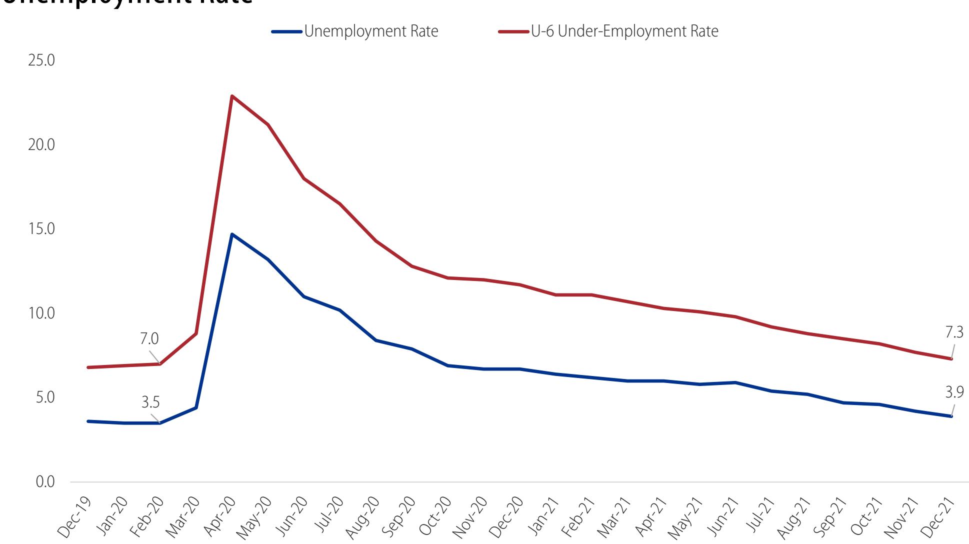


Source: Bureau of Labor Statistics

While the business survey disappointed, the separate household survey continued to shine. In December, +168k workers joined the labor force, while +651k reported finding work. This combination drove the headline unemployment rate down from 4.2% to 3.9%

The number of unemployed workers declined by 483k to 6.3 million last month, down from 10.5 million at the beginning of 2021. The number of Americans out of work for 27-weeks or longer, fell by 185k to 2 million, down from 4 million at the beginning of 2021.

Unemployment Rate



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Source: Bureau of Labor Statistics

Notable job additions in December were found in leisure and hospitality (+53k), professional and business services (+43k), manufacturing (+26K) and construction (+22k). With the December increase, leisure and hospitality jobs remain 1.2 million below the total from before the pandemic began.

All in all, today's mixed report still supports the view that the Fed has met its full employment mandate and keeps Fed policy on track as committee members have indicated a focus on the price (inflation) mandate.

While the business survey disappointed, the separate household survey continued to shine. In December, +168k workers joined the labor force, while +651k reported finding work. This combination drove the headline unemployment rate down from 4.2% to 3.9%, the lowest since the pandemic began and within half a percentage point of a five-decade low. However, the headline unemployment rate only considers those actively looking for work; the number of persons not in the labor force who currently want a job totals 5.7 million, 717k above the pre-pandemic level in February 2020.

A total of 3.1 million were unable to work in December because their employer closed or lost business due to the pandemic, down from 3.6 million in November. It's important to note that the December survey only captured the first half of the month, before the Omicron surge had asserted itself. With this thought in mind, the January labor report could be even weaker.

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Employers continue to raise wages to attract and retain workers in what is generally considered to be a *very tight labor market*. Average hourly earnings rose +0.6% in December, hotter than both the +0.4% median forecast and the +0.4% revised gain in November. The +4.7% year-over-year increase exceeded the +4.2% forecast. The Fed will focus on wages, which are obviously inflationary.

The December report is open for debate. The household survey, with +651k jobs added and a headline unemployment rate of 3.9% appears strong, while the business survey with just +199k payroll additions was disappointing. The current surge in new cases will certainly have a negative effect on the January job count as millions of Americans are currently sitting at home as the year starts. If January's report, released in February, is especially poor, it's possible that the Fed signals patience. It's also quite possible that so many production workers are sidelined by the virus that supply is affected and price pressures increase, which could increase pressure on the Fed. All in all, today's mixed report still supports the view that the Fed has met its full employment mandate and keeps Fed policy on track as committee members have indicated a focus on the price (inflation) mandate.

The financial markets are volatile this morning, reflecting the difficulty in interpreting the report. As we've heard repeatedly throughout the pandemic, the path of the virus will drive the economy. As of Wednesday, the 7-day day average of new cases in the U.S. was 586k, more than double last years' peak of 246k and a +400% increase since the beginning of December. Until this fog lifts, the economic outlook will remain cloudy, but the interest rate outlook remains …*higher* in 2022.

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

DOW	Down -96 to 36,141 (HIGH: 36,800)
NASDAQ	Down -172 to 14,909 (HIGH: 16,057)
S&P 500	Down -12 to 4,684 (HIGH: 4,797)
1-Yr T-bill	current yield 0.43%; opening yield 0.41%
2-Yr T-note	current yield 0.89%; opening yield 0.86%
3-Yr T-note	current yield 1.17%; opening yield 1.13%
5-Yr T-note	current yield 1.51%; opening yield 1.47%
10-Yr T-note	current yield 1.78%; opening yield 1.72%
30-Yr T-bond	current yield 2.13%; opening yield 2.08%