Yields Rise as Wages Climb

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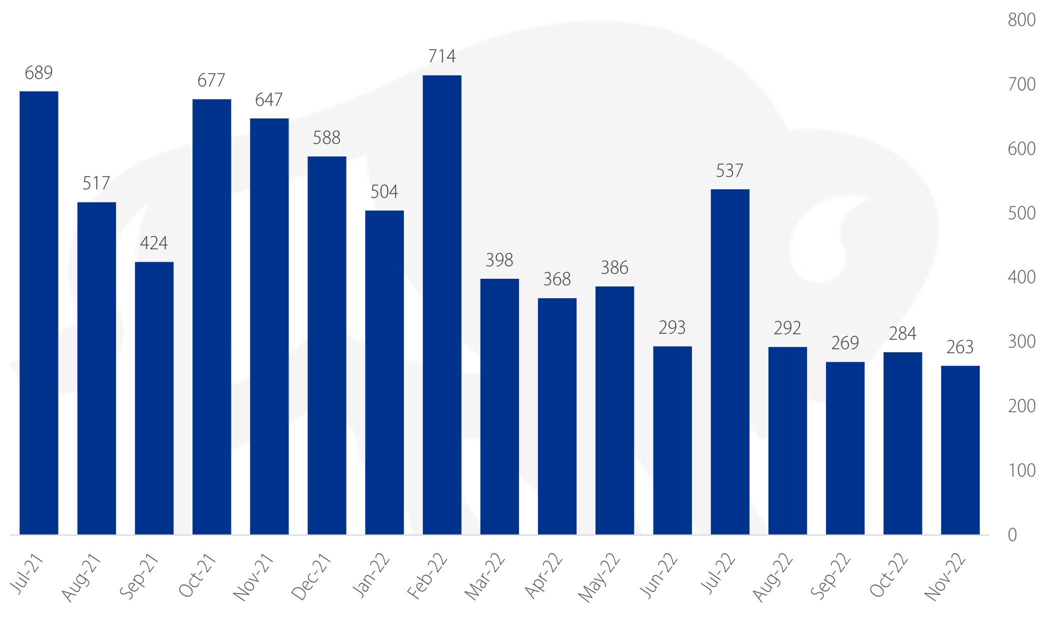
The November labor report from the Bureau of Labor Statistics proved stronger-than-expected, implying that any policy pivot by the Fed might be further out on the 2023 calendar.

U.S. companies added +263k jobs last month, well above the Bloomberg median forecast of +200k, while November payrolls were revised upward from +261k to +284k. When Fed officials are trying to curtail economic growth, bigger payroll gains signal more tightening ahead.

Notable job increases were concentrated last month in leisure and hospital (+88k), healthcare (+45k), government (+42k), construction (+20k) and manufacturing (+14k). Payroll declines were evident in retail trade (-30k) and transportation and warehousing (-15k). With the exception of government, and leisure and hospitality (both of which remain well below pre-pandemic levels), other sectors have fully recovered their pandemic losses.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The number of unemployed persons actively seeking employment remained at 6 million in November, while another 5.6 million Americans had not looked for work in the last 30 days, but would presumably accept a suitable job if offered.

The labor force participation rate, which Fed officials would like to see move higher as more sidelined Americans resume their job searches, actually declined in November from 62.2% to 62.1%. This represents employed workers and those looking for work as a percentage of working-age Americans. With 10.3 million job openings, any decline in the labor force is a disappointment. In an ideal world, the number of available workers would rise to meet the number of job postings. Since this isn't happening, Fed officials have little choice but to continue flattening demand.

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The most important piece of the November report was not job gains or unemployment, but rather wages. Fed officials have made it clear that in order to rein inflation in, the pace of earnings growth would have to come down. However, as the busy holiday season approaches, employers are forced to pay competitive wages to attract and retain workers. In November, the increase in average hourly earnings doubled forecasts at +0.6%, pushing the year-over-year increase from a revised +4.9% to +5.1%.

It's been a wild week of volatility in the bond market as investors try in vein to anticipate future Fed policy. Yields have fallen all week, but are rising this morning. The unfortunate strength in November employment has counter-balanced recent weakness in other economic indicators and suggests the Fed has more work to do.

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Market Indications as of 9:16 A.M. Central Time

DOW	Down -207 to 34,188 (HIGH: 36,800)
NASDAQ	Down -90 to 11,393 (HIGH: 16,057)
S&P 500	Down -38 to 4,038 (HIGH: 4,797)
1-Yr T-bill	current yield 4.71%; opening yield 4.60%
2-Yr T-note	current yield 4.35%; opening yield 4.24%
3-Yr T-note	current yield 4.07%; opening yield 3.97%
5-Yr T-note	current yield 3.76%; opening yield 3.67%
10-Yr T-note	current yield 3.59%; opening yield 3.51%
30-Yr T-bond	current yield 3.64%; opening yield 3.60%