

Higher Unemployment Increases Odds of December Cut

Nonfarm payrolls bounced back in November after a weak, storm-tinted October reading, while the headline unemployment rate edged higher. Although the November labor numbers were mixed, the likelihood of a quarter point cut in two weeks has climbed above 90%.

U.S. companies added +227k jobs last month, slightly better than the +220k median forecast, while nonfarm payroll growth for the previous two months was revised higher by a combined +56k. The three-month average gain rose from +123k to +173k, now just below the 12-month average.

Notable increases were concentrated in healthcare (+54k) and leisure and hospitality (+53k). The manufacturing sector added +22k jobs, reflecting the return of striking workers, while the number of construction jobs increased by +10k.

The retail sector was the big loser last month, shedding -28k jobs. This is surprising given the robust start to the holiday spending season.

Average hourly earnings increased by a larger-than-expected +0.4% in November and +4.0% year-over-year. The average workweek increased from 34.2 to 34.3 hours, while factory overtime rose 0.1 hour to 2.9 hours.

In the separate household survey, the total number of employed workers in the U.S. fell by -355k to 161.14 million, while the civilian labor force declined by -193k. This combined to push the unemployment rate up from 4.1% to 4.2%.

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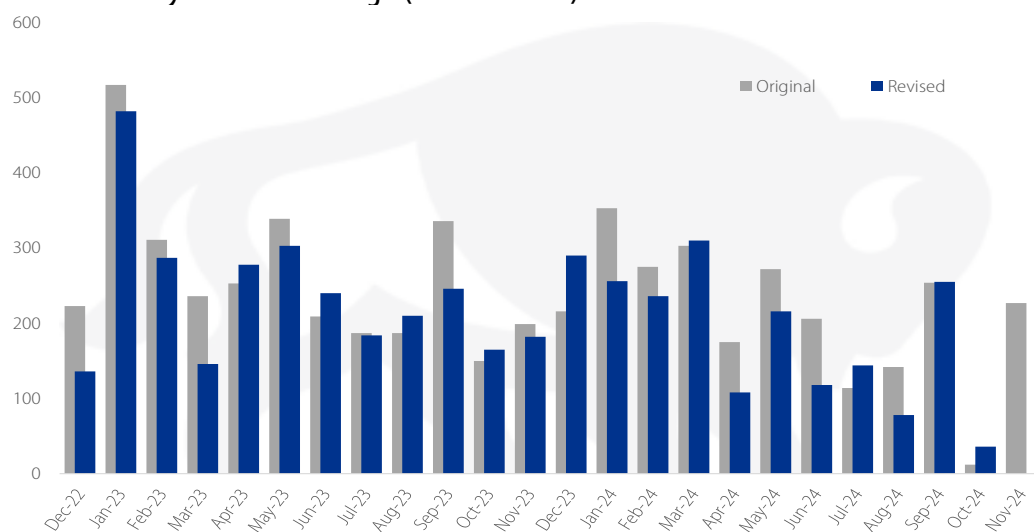
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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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The total number of Americans actively seeking work last month rose by +161k to 7.14 million. By contrast, the most recent JOLTS report showed 7.74 million job openings.

The November employment report was clearly mixed, with higher payroll gains mitigated by a rise in the unemployment rate. All-in-all, the labor market may be softening but with headline unemployment less than a percentage point above the five-decade low, conditions remain favorable.

Bonds have rallied in early trading, which signals investors are focusing more on the rise in unemployment rather than the solid gain in payrolls. It appears the Fed will have ample latitude to cut the overnight rate by 25 basis points on December 18th. The uncertainty surrounding the incoming administration's trade and tax policies, along with recent comments by FOMC members, suggest Fed officials could hold steady at the January FOMC meeting.

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The next release of consequence is the November CPI report next Wednesday. Forecasters expect some upward pressure on consumer prices. A hotter-than-expected report could prompt a rethink of December policy.

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

DOW	Up 19 to 44,785 (HIGH: 45,014)
NASDAQ	Up 146 to 19,847 (NEW HIGH)
S&P 500	Up 22 to 6,097 (NEW HIGH)
1-Yr T-bill	current yield 4.17%; opening yield 4.22%
2-Yr T-note	current yield 4.08%; opening yield 4.14%
3-Yr T-note	current yield 4.04%; opening yield 4.10%
5-Yr T-note	current yield 4.02%; opening yield 4.08%
10-Yr T-note	current yield 4.14%; opening yield 4.18%
30-Yr T-bond	current yield 4.32%; opening yield 4.34%

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