Federated®

What recession?

01-04-2019

Bottom line *In a stunning rebuke to the shameless perma-bears who have been relentlessly banging the recession drum in recent months, the labor market closed out 2018 with a robust December report, in which payrolls, wages, hours worked and the participation rate all enjoyed powerful sequential gains. Nonfarm payrolls grew by a much stronger-than-expected 312,000—with an upward revision of 58,000 jobs in October and November—which was well above consensus expectation for a solid gain of 184,000 last month. Additionally, average hourly earnings leapt to a new 10-year high of 3.2% year-over-year (y/y), the average workweek ticked up to 34.5 hours and the labor force participation rate surged to a new 5-year high at 63.1%.*

The bigger question in our mind is whether today's strong labor report keeps the Federal Reserve actively engaged in tightening monetary policy over the next year or so. With core PCE inflation below the Fed's target at 1.9%, a weak housing market, a decline in the pace of manufacturing activity and a recent deceleration in confidence, Wall Street believes that the Fed should be done hiking rates for this cycle and should slow its plans to shrink the balance sheet. But the Fed's December dot plot calls for three more quarter-point hikes into 2020, with balance-sheet shrinkage on autopilot. Speaking at a panel in Atlanta this morning, Fed Chair Jerome Powell sounded a more dovish note, saying "with the muted inflation readings that we've seen, we will be patient as we watch to see how the economy evolves." He added that "there is no pre-set path for policy." His comments helped to drive stock prices sharply higher.

Nonfarm payrolls soared With a stronger-than-expected gain of 312,000 jobs in December, they came in well above the Bloomberg consensus of 184,000 jobs and Federated's own more constructive forecast of 246,000 (which relied upon robust ADP and survey-week claims data). The Bureau of Labor Statistics (BLS) revised October and November up by 37,000 and 21,000 jobs, respectively, totaling 58,000 over the two months.

Solid ADP & claims data support strong payrolls ADP's private-sector hiring was much stronger than expected in December with a gain of 271,000 jobs, its highest level since February 2017. Initial weekly unemployment claims for the survey week that ended Dec. 15 at 217,000 are only marginally above September's 49-year cycle low of 202,000.

Government hiring rose for the second consecutive month by 11,000 jobs This means that private payrolls grew by 301,000 in December versus consensus estimates for a private payroll gain of only 185,000 jobs. Local payrolls added 9,000 workers in December, state payrolls hired 5,000 workers and federal payrolls shrunk by 3,000 workers.

Household survey rises again The admittedly volatile household survey rose by 142,000 workers in December, compared with revised increases of 221,000 in November, 513,000 in October and 465,000 in September. This leading indicator for nonfarm and private payrolls serves as the basis for the official unemployment rate (U-3).

Unemployment and participation rates rise, while labor-impairment rate holds steady The civilian labor force increased by 419,000 in December, compared with gains of 127,000 workers in November and 639,000 workers in October. That increase pushed the labor-force participation rate (the share of working-age people in the labor force) up to 63.1% in December from 62.9% in October and November, a new 5-year high. The 41-year low of 62.4% was set in September 2015.

Because of the modest increase of only 142,000 workers in the December household survey and the sequential decline in the number of discouraged workers, the unemployment rate rose to a 5-month high of 3.9% versus a 49-year low of 3.7% in November. This is a positive, because more unemployed people are now confident that they can find a job.

The labor-impairment rate (U-6)—also known as the "total" rate of unemployment (or the underemployment rate) because it more broadly includes discouraged workers and the underemployed—was unchanged at 7.6% in December. August's 7.4% was a 17-year low, so there's still slack in the labor market.

Wages and hours worked both rise Average hourly earnings rose 0.4% on a month-over-month basis in December, double November's 0.2% gain, which boosted the y/y gain to 3.2%. That matches its strongest gain since a 3.4% increase in April 2009. For the fourth time in the past six months, the average private work week for all employees rose a tick back to 34.5 hours worked in December. This is good news, as an increase of 0.1 hour worked theoretically adds 350,000 jobs to the economy.

Ditto for manufacturing and construction Despite recent weakness in the ISM data, the manufacturing sector added a much stronger-than-expected 32,000 jobs in December, compared with 27,000 jobs in November, 29,000 in October and 19,000 in September. December's weather was more seasonable, so construction added a robust 38,000 jobs last month, versus a goose egg in November and 31,000 jobs in October.

Retail, transportation and temps all solid We may have enjoyed the best Christmas retail sales in six years, particularly in e-commerce. Retail hiring reflected that strength, adding 24,000 jobs in December, compared with an upwardly revised gain of 29,000 jobs in November and breakeven in October. The transportation and warehouse sector, which delivers online purchases, added only 2,000 jobs last month, but that was after adding 29,000 jobs in November and 17,000 jobs in October. Temporary help (a leading economic indicator) added 10,000 jobs in December versus 11,000 jobs in November, 16,000 jobs in October and 13,000 in September.

Connect with Phil on LinkedIn

Philip Orlando, CFA
Chief Equity Market Strategist, Head of Client Portfolio Management

Also by Philip Orlando

U.S. markets: 3 things to watch in 2019

Orlando's Outlook: Will stock market Grinch steal holiday spending?

Orlando's Outlook: Cooler jobs report restrains Fed

Recent Equity

Contrary to popular belief
Linda Duessel

Global markets: 3 things to watch in 2019
Linda Duessel

Weekly Update: May you have very happy holidays
Linda Duessel

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

The Institute of Supply Management (ISM) manufacturing index is a composite, forward-looking derived from a monthly survey of U.S. businesses.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

Federated Advisory Services Company

456497

Federated

Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779
Telephone: 412-288-1900