Orlando's Outlook: Cooler jobs report restrains Fed

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Bottom line *Nonfarm payrolls grew by a much weaker-than-expected 155,000 jobs in November, well below consensus expectations for a gain of 198,000. To be sure, weather played a role in the miss, as it was the snowiest November in 80 years and the coldest Thanksgiving in a century. As a result, the Labor Department reported that 129,000 people weren't at work due to the bad weather, compared with an historical 42-year average for all Novembers of 74,000 people missing work, for a worse-than-expected, weather-related delta of 55,000 jobs.*

Other than the headline payroll miss and a tick down to 34.4 hours worked for the second month in the past three, the rest of today's jobs report was relatively solid. Average hourly earnings held at a 10-year high of 3.1% year-over-year (y/y), the unemployment rate (U-3) was unchanged at a 49-year cycle low of only 3.7%, and the labor force participation rate remains just under a 4-year high at 62.9%.

The more important read, in our view, is that today's soft payroll report adds to the Federal Reserve's growing mosaic that it is getting increasingly closer to neutral on interest rates. The housing and auto markets remain under pressure in the U.S., and the core PCE downshifted recently from the Fed's 2% inflation target in July to 1.8% in October. Moreover, the deadline for President Trump's trade skirmish with China will drag into next March, a month before the U.K.'s exit from the European Union. Additionally, third-quarter GDP slipped into negative territory in Germany and Japan, while France and Italy are embroiled in their own political and economic woes.

We still expect the Fed to hike interest rates again by a quarter point at the December 18-19 policy-setting meeting. But with the world's seven largest economies simultaneously under economic pressure, the Fed may skip a rate increase next March, and a possible June 2019 rate hike will be data dependent, which means the Fed could be done hiking rates for this cycle in two weeks' time.

Weaker ADP, claims, and JOLTS pointed to soft payrolls Initial weekly unemployment claims for the survey week that ended Nov. 17 rose to 224,000, which have recently started to increase from September's 49-year cycle low of 202,000. ADP's private-sector hiring was much weaker than expected with a gain of only 179,000 jobs in November (due to a dearth of large-company hiring), compared with an 8-month high of 225,000 workers in October. After two consecutive record months, the Job Openings and Labor Turnover Survey (JOLTS) slipped to 7.009 million openings in September (the last available data point), so there are still one million more available jobs than unemployed workers to fill them. But 3.6 million Americans quit their jobs in September, as the quits rate remained unchanged at a 17-year high of 2.4%.

Nonfarm payrolls missed The weaker-than-expected gain was also below Federated's own more conservative forecast of 182,000. The Bureau of Labor Statistics (BLS) revised October down by 13,000 jobs and September up by 1,000, netting out a revised decline of 12,000 over the two months. October was revised down from a preliminary gain of 250,000 jobs last month to a more modest increase of 237,000 jobs this morning. September was revised up, from a preliminary gain of 134,000 jobs, to a more modest increase of only 118,000 jobs last month, to a final gain of 119,000 jobs this morning.

Government hiring fell for the second consecutive month The drop of 6,000 means that private payrolls grew by 161,000 in November versus consensus estimates for a private payroll gain of 198,000. State payrolls lost 13,000 workers in November, while federal and local payrolls added 3,000 and 4,000 workers, respectively.

Household survey rose again The admittedly volatile household survey rose by 233,000 workers in November, compared with robust gains of 600,000 jobs in October and 420,000 jobs in September. This leading indicator for nonfarm and private payrolls serves as the basis for the unemployment rate.

Unemployment and participation rates held steady while labor-impairment rate rose The civilian labor force increased by 133,000 workers in November, compared with gains of 711,000 workers in October and 150,000 workers in September. That kept the labor-force participation rate (the share of working-age people in the labor force) unchanged at 62.9% in November. The 4-year high was at 63% in February, and the 41-year low of 62.3% was set in September 2015.

Because of the moderate increase of 233,000 workers in the November household survey, the number of unemployed fell by 100,000 people, which kept the unemployment rate unchanged at 3.7% in November, a 49-year low.

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—rose to 7.6% in November from 7.4% in October (matching a 17-year low), which means labor slack has increased.

Wages flat, hours worked shrunk Average hourly earnings rose 0.2% on a month-over-month basis in November, double October’s 0.1% gain. But the y/y gain was unchanged at 3.1%, matching its strongest gain since a 3.4% increase in April 2009. For the second time in the past three months, the average private workweek for all employees slipped to 34.4 hours worked in November, down a tick from October. This troubling metric is important, as a decline of 0.1 hour worked theoretically subtracts 350,000 jobs from the economy.

Manufacturing rose, but construction plunged The manufacturing sector added a much stronger-than-expected 27,000 jobs in November versus 26,000 in October, 19,000 in September, 11,000 in August, and 22,000 in July. Due to the accelerating weakness in housing, construction added a paltry 5,000 jobs in November compared with downwardly revised gains of 24,000 jobs in October, 15,000 in September, 31,000 in August, and 19,000 in July.

Retail and transportation strong, but temps slipped We had the best “Back-to-School” retail season this summer in seven years, and we believe that October and November retail sales were solid to start the Christmas holidays, particularly on-line sales. Retail hiring added 18,000 jobs in November, compared with a downwardly revised loss of 7,000 jobs in October and a final loss of 27,000 jobs in September. The transportation sector, which delivers the online purchases, added 25,000 jobs in November, a downwardly revised 16,000 jobs in October, 25,000 in September and 23,000 in August. Temporary help (a leading economic indicator) added only 8,000 jobs in November, compared with upwardly revised gains of 17,000 jobs in October and 13,000 in September, 11,000 in August and 10,000 in July.

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

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The Job Openings and Labor Turnover Summary (JOLTS) is conducted monthly by the U.S. Bureau of Labor Statistics.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

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

Federated Advisory Services Company

435388

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