The Daily Dish

December Jobs

GORDON GRAY | JANUARY 8, 2021

In last month's jobs report, the headline payroll gain of 245,000 underscored the fragility in the labor market heading into the holidays. The unemployment rate fell to 6.7 percent, while the labor force lost 400,000 workers, leaving the labor force participation rate at 61.5 percent.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand increased 0.1 percent in November;
- The Consumer Price Index increased 0.2 percent in November;
- Real average hourly earnings increased one cent from October to November;
- Orders for durable goods (including defense and aircraft) increased 0.9 percent in November;
- New home sales decreased 11.0 percent in November;
- The Price Index of U.S. imports increased 0.1 percent in November;
- ISM Services Index increased 1.3 percentage points to 57.2 percent in December;
- ISM Manufacturing increased 3.2 percentage points to 60.7 percent in December;
- Consumer Confidence Index decreased 4.3 points from 92.9 to 88.6 in December;
- ADP reported private sector employment decreased by 123,000 jobs in December.

Gordon's Guesstimate: December Jobs

Authored by Gordon Gray, AAF's Director of Fiscal Policy
Job growth has steadily slowed since June, when employers added nearly 4.8 million workers to U.S. payrolls. No one expected that to persist, but gains have been halved essentially every two months since June. There was some risk that payrolls would shrink in November, though it was unlikely. That risk appears to have increased in December.

Several major economic indicators released since last month's employment report have softened somewhat. Perhaps most conspicuously, ADP is reporting that private sector payrolls shed 123,000 jobs in December – the first negative print since June. The employment index for the ISM Services index fell to 48.3 percent, reflecting a contractionary labor market in the services sector, which comprises over 80 percent of private employment. The substantial decline in consumer confidence reflects the present economic quandary well. The component of the index that reflects consumers' immediate concerns fell sharply in December, when a number of federal support programs were scheduled to, and ultimately allowed to, lapse. Despite the downgrade in current conditions, consumers' attitudes about the future improved. While perhaps an oversimplification, the survey reflects the present distress in the economy, even as a post-vaccine future is taking shape just over the horizon.

Separate and apart from the observed slowdown in hiring is a statistical consideration that animates employment figures throughout the year: seasonal adjustment. December is the perfect month for a brief detour into seasonal adjustment. Before diving in, it is probably worth making clear from the jump that seasonal adjustment is an entirely accepted, trusted, and routine statistical treatment of data that are otherwise animated by large seasonal flows. The purpose of seasonal adjusted data is to strip out those seasonal trends to identify the underlying trend and allow for accurate comparisons within time series. Retail employment around the holidays is a classic example of the rationale for seasonal adjustment. We know that every year retail employment jumps for the holidays and then temporary workers are let go. These sorts of shifts are always present in the data. But those large regular, seasonal, labor flows might swamp more important but smaller underlying trends in the labor market if they weren't statistically removed from the data.

This isn't to say seasonally adjusted data are uniformly "better," just that they are tailored to identify underlying changes in the labor market beyond regular or seasonal movements. Of course, the seasonal adjustment factors are based on historical observations. But the present labor market conditions are essentially unprecedented due to COVID-19. The economists, statisticians, and labor market professionals at the Bureau of Labor Statistics (BLS) are the best in the business, and they have done a tremendous job explaining their methodologies as they grapple with the practical reality of surveying and documenting the dynamics of America's labor market during a pandemic. It will be interesting to this guesstimator to see how BLS describes their approach to seasonal adjustment in these unique times.

A brief methodological detour aside, this guesstimator is assuming a gain of 75,000 jobs, though the risk of a contraction is elevated this month. I assume the unemployment rate will hold at 6.7 percent and workers will see a 3-cent increase in average hourly earnings bringing the yearly gain to 4.5 percent, a misleadingly high gain due to the number of low-wage workers who were lost from the work force.