November Jobs

GORDON GRAY | DECEMBER 2, 2022

The October jobs report came in and was perhaps just slightly on the warmer side. Even while the Federal Reserve was leaning on a “restrictive” monetary policy, employment growth continued at a healthy clip. Employers in October added 261,000 jobs, with private-sector payrolls gaining 233,000 jobs, while the unemployment rate rose to 3.7 percent. The labor force participation rate fell to 62.2 percent.

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

- The Producer Price Index for final demand increased 0.2 percent in October;
- The Consumer Price Index increased 0.4 percent in October;
- Real average hourly earnings decreased one cent from September to October;
- Orders for durable goods (including defense and aircraft) increased 1.0 percent in October;
- New home sales increased 7.5 percent in October;
- The Price Index of U.S. imports decreased 0.2 percent in October;
- ISM Services Index decreased 2.3 percentage points to 54.4 percent in October;
- ISM Manufacturing Index decreased 1.2 percentage points to 49.0 percent in November;
- The Consumer Confidence Index decreased 2.0 points from 102.2 to 100.2 in November;
- ADP reported private sector employment increased by 127,000 jobs in November.

GORDON’S GUESSTIMATE: NOVEMBER JOBS

On Wednesday, equity markets rallied on the “news” that the Federal Reserve “may” reduce the pace of federal funds rate hikes exactly as most observers have been predicting. At a hearing before the House Financial Services Committee at which AAF President Doug Holtz-Eakin testified, the committee’s majority leaned rather forward into the idea that a pause was warranted, or that the risks of overtightening – potential job losses – outweighed the risks of inflation becoming further entrenched. That’s probably not a galloping surprise given the policy views of many on that committee but is a view that will find more support as monetary policy has become increasingly restrictive.

The data are painting a somewhat more nuanced picture. To be sure, the pace of both net hiring and nominal wage gains has fallen from earlier highs. Over the last six months, monthly payroll growth is, on average, down by about 40 percent from the same period the year prior, while the hourly earnings gains are down by about 25 percent. Over that same period, the Federal Reserve has increased the target federal funds rate by 350 basis points.

But the U.S. economy in general and the labor market in particular are more than merely the downstream effects of the Federal Open Market Committee’s actions. Unemployment remains below the 3.8 percent that prevailed when the Fed began hiking rates. Year-over-year the core Personal Consumption Expenditures index is essentially the same now as it was in December 2021.

Over the last month, there was some modest evidence of weakening in certain industries. Manufacturing, as measured by the ISM PMI index has moved into contractionary territory for the first time since May 2020. The related employment index similarly fell into contraction. ADP’s November employment report reflects a 100,000-employment decline in manufacturing. That would mark a significant U-turn in an industry that has seen steady gains over the last year. Reports from the Federal Reserve’s beige book offered a mixed view, broadly characterized as flat or modest in gains, but a six-figure decline in manufacturing employment seems unlikely.

More broadly, unemployment insurance claims fell in the most recent report, reversing a prior uptick. Job openings fell, but much like unemployment insurance claims, in absolute terms, this measure reflects an enduringly tight labor market. The divergence in the payroll and household surveys in last month’s report is not uncommon in turning points in the economy. We may see a marked downshift substantiated in today’s report, but the data do not clearly so indicate.

This guesstimator is assuming a 215,000-payroll gain, while the unemployment rate should stay at 3.7 percent, and average hourly earnings to increase 9 cents for a 4.61 percent yearly gain.