U6 Fix

In the Eye of the Beholder

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The biggest game in town is trying to anticipate the pace of Fed rate hikes in 2019. Today's November employment report was solid across the board. Payroll employment rose by 155,000 jobs and job gains were spread across groups and industries. The key figure – wages – was also strong, as average hourly earnings rose by 6 cents, which translates into an annual rate of 2.7 percent and earnings are up 3.1 percent from November 2017. The only weak point was a soft number for average weekly hours – worth keeping an eye on.

The household survey was also solid. Unemployment was unchanged at 3.7 percent and labor force participation held steady at a rate of 62.9. (Note that the aging population would indicate the participation would fall.) The notable moves in unemployment were continued declines for low-skilled workers – less than high school was down by 0.4 percentage points and high school graduates by 0.5 percentage points. Asian unemployment also fell by 0.5.

Data junkies here's your fix: The November U-6 (the broadest measure of unemployment) rose to 7.6 percent due to small rises in discouraged workers and those working part-time for economic reasons.

The bottom line: This report will be in the eye of the beholder. There is absolutely nothing wrong with it – suggesting the Fed should stay the course. But there are also no overwhelming numbers – this will give doves cause to call for a Fed slowdown in rate hikes.