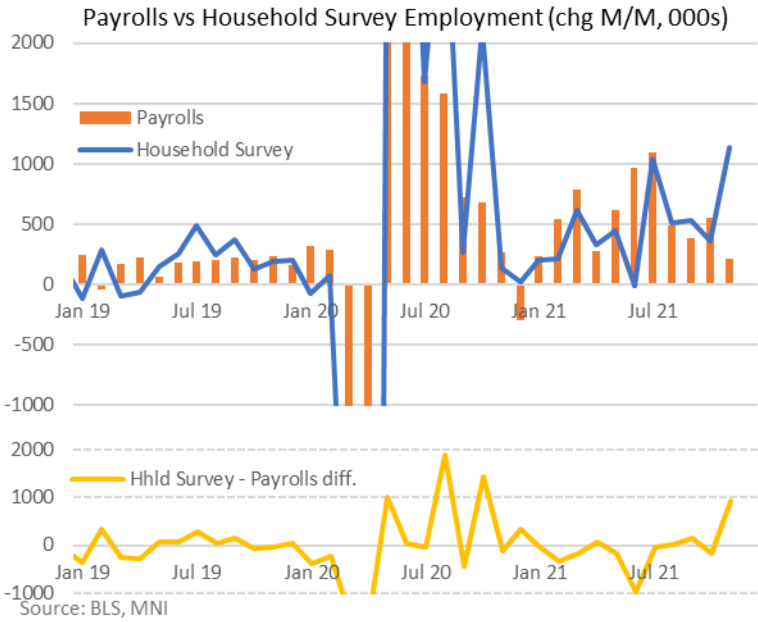
U.S. Employment Insight: Dec 2021

MNI View: Underlying Metrics Show Strength

By Tim Cooper and Chris Harrison

November's U.S. employment report showed a significant (340k) miss on Nov headline payroll gains vs consensus (+210k vs +550k expected), with a 2-month upward revision of +82k failing to compensate. But the more one looked at the report, the stronger it appeared - especially since the Fed takes heed of several Household Survey metrics which looked very healthy in contrast to the headline Establishment Survey result. For instance:

- **The employment-to-population ratio** jumped a healthy 0.4pp to a pandemic era high 59.2%.
- **Prime-age (25-54) year old participation** is back to 81.8%, equalling summer levels which were pandemic era highs (and which may have declined due to Delta / care needs).
- **A broad swathe of employment demographics** the Fed has eyed has seen sharp improvement: Black/African-American unemployment rate down 1.2pp to 6.7% (pre pandemic was 6.0%) and less-than-high school diploma educated -1.7pp to 5.7% (back to pre-pandemic levels).



In contrast, the weakness within the establishment survey was surprisingly broad-based. Every main category saw a smaller job gain than in Oct rather than just being Delta-related, although that said it was most pronounced in "food services & drinking places" and "retail trade" where the latter actually saw a seasonally adjusted decline on the month.

Establishment Vs Household

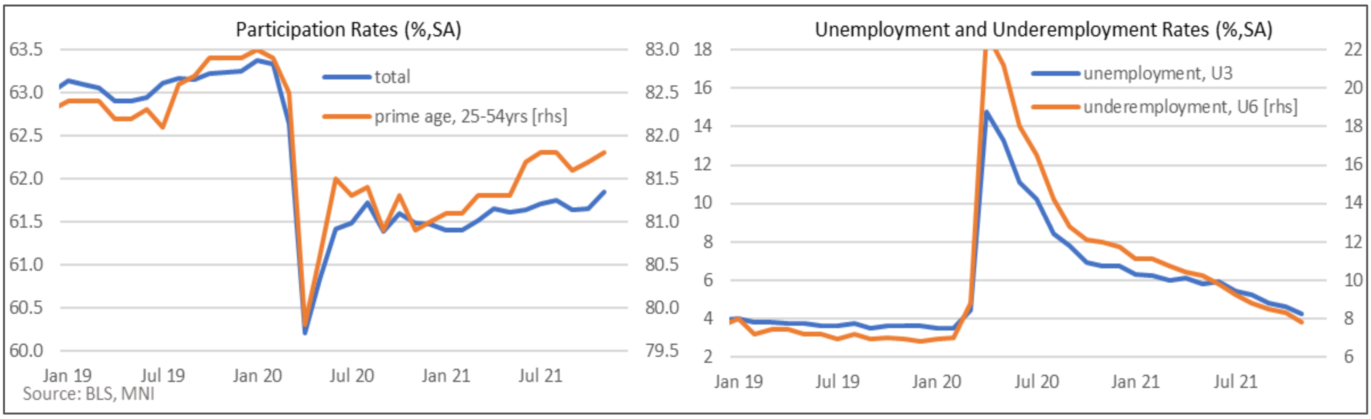
The discrepancy between the Establishment and Household parts of the report was the standout feature: household survey showed +1.136mn employed; establishment +210k. That 926k difference between the Household and Establishment series job gains is one of the highest on record, and the biggest in a positive (for Household) since Oct 2020 - though it's been a very volatile spread since the pandemic began.

As such there may have been some measurement issues at play. For example, Goldman Sachs pointed out following the report: "the payroll survey response rate was the lowest for a November in 13 years [65% vs 74% a year ago], and we place more weight than usual on the household survey this month". (See later in this report for a round-up of sell-side takes on November's nonfarm report).

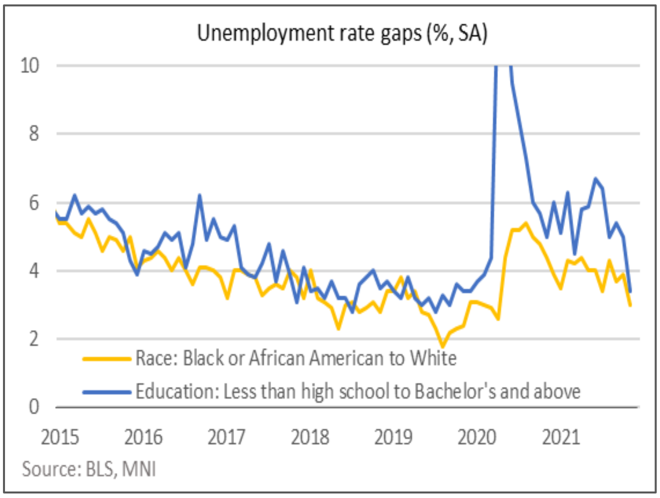
Overall, Household Survey seemingly accorded more to the anecdotal and survey data for November, so we'd expect the more positive narrative to get the benefit of the doubt pending future revisions. And so far as the Federal Reserve is concerned going into the December meeting, the headline payrolls disappointment will do little to change the growing consensus that the FOMC will announce an acceleration of its taper pace.

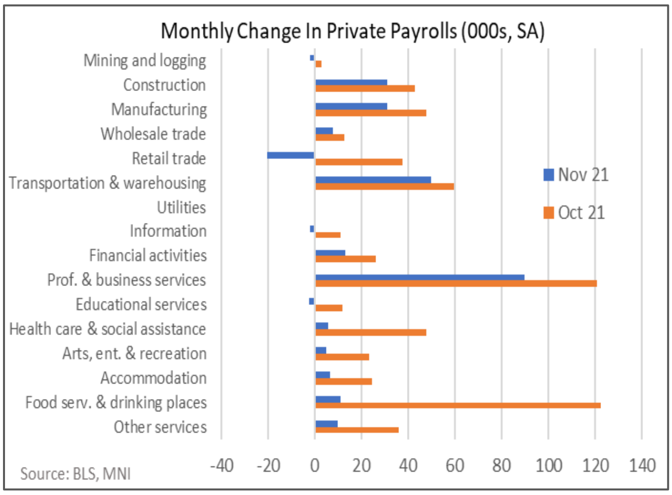
Employment Chart Pack

Under/Unemployment Rates continue to decline: The discrepancy between the weak headline payrolls figure (Establishment survey) and the sharp fall in unemployment rate (Household survey) meant that despite a large rise in the labour force, unemployment and other underemployment rates continued to trend lower at a fast pace, and are now starting to approach pre-pandemic lows.

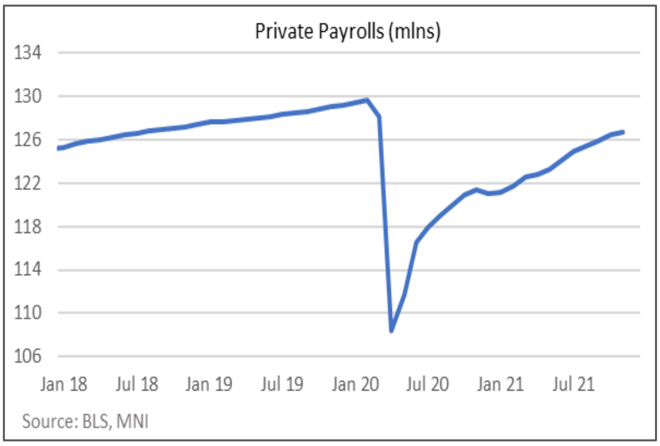


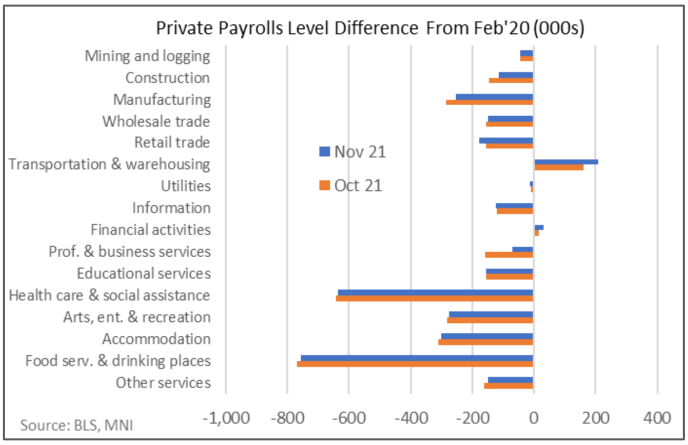
Broad-based sectoral weakness: Interestingly though, in the Establishment Survey, every single main category saw a weaker increase than in October, and in the case of retail trade there was actually a contraction on a seasonally adjusted basis.



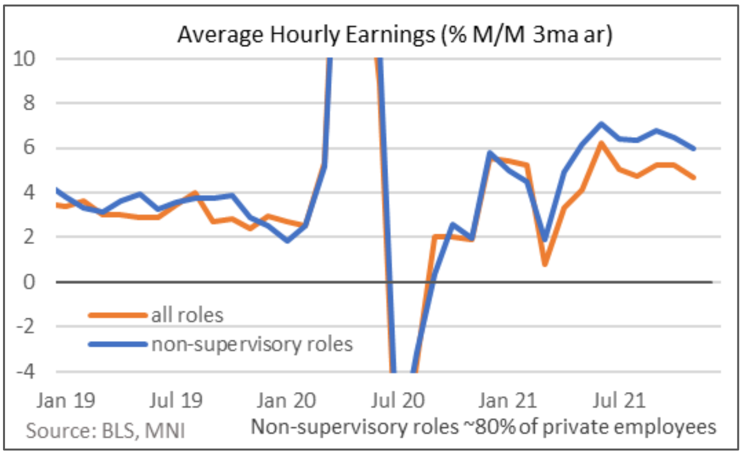


Comparisons with pre-pandemic levels: Private payrolls are still 3mln below their pre-pandemic peak of Feb'20, with losses heavily concentrated in "food services & drinking places" and "health care & social assistance" but also with sizeable gaps for other leisure categories. However, two categories are above their pre-pandemic levels: "transportation & warehousing" and just recently "financial activities".

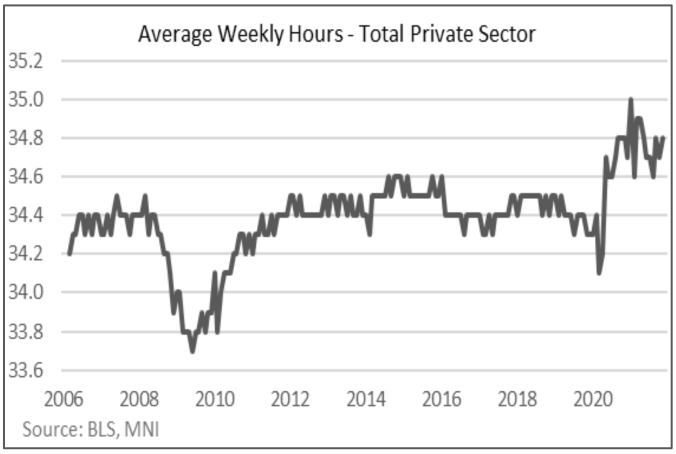


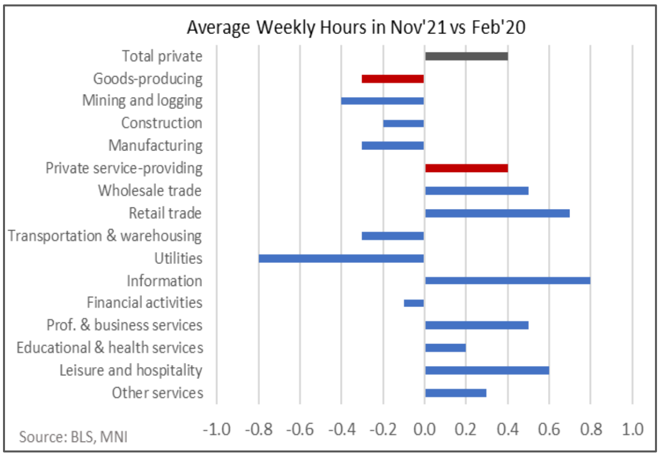


Broad-based wage growth: Wage growth remains very strong in a broader underlying sense, with hourly earnings of "production and nonsupervisory employees" (approx. 80% of employees) still growing at 6% annualized in trend term compared to 4.7% for all job roles.



Divergence in hours: Elevated weekly hours are taken as a sign of high labour demand but there are clearly different trends between goods and services, whilst even within services the increase on pre-pandemic levels hasn't been evenly distributed.





Nov 2021 Employment Report: Analyst Reviews

(In alphabetical order):

Most of the analysts below note that behind the headline weakness of the payrolls print was a report with signs of underlying strength. There is general consensus that the pace of taper will still be accelerated with at least an announcement that it will do so at the upcoming Dec 15 meeting, although Wells Fargo believe there is a chance it could be delayed to January. There doesn't appear to have been a change in rate call although TD believe it opens the door for a less hawkish dot plot as participation rises and average hourly earnings soften.

BMO: Tighter Labour Market, FOMC To Announce Faster Taper This Month

- BMO note that "apart from the headline number, the November jobs report suggests the U.S. labour market is going from strength to strength, and getting even tighter".
- The unemployment rate plunged four tenths to 4.2%, putting it within earshot of the pre-pandemic level of 3.5%". The broader U6 measure also slid to 7.8% versus 7.0% in February 2020.
- The participation rate edged higher to 61.8% but remains 1.5ppts below pre-virus norms and "will need to rise faster to relieve labour shortages".
- "Wages simmered down a tad, but continue to climb briskly" and "are bound to speed up as the unemployment rate grinds lower".
- Further, strong aggregate hours worked add upside risk "to our Q4 GDP growth call of 4.5%, notwithstanding Omicron's threat".
- Labour shortages are only worsening. It is "putting a damper on actual hiring, but also risks keeping inflation higher for longer. It's clearly time to "retire" the word transitory. Look for the FOMC to announce a faster rate of tapering on the 15th".

CIBC: Fed To Accelerate Taper In Dec To Give Flexibility

- Payrolls underwhelmed with disappointment stemming "from a lack of available workers, given the scale of job openings, as the leisure and hospitality sector's recovery almost stalled, while wages continued to rise strongly in that sector".
- The unemployment rate fell by more than expected and at 4.2% is well below the Fed's end of year projection.
- We continue to expect the US labor market to reach full employment in mid-2022, but there is "ample uncertainty over the next couple of months should Omicron become the dominant variant in the US, which could stall the recovery in service sectors and labor force participation".
- Faced with this uncertainty, CIBC see the Fed as likely still wanting "to speed up its tapering process at the December meeting, so that it has the option of hiking earlier should Omicron prove less of a threat".

GS: Strong Household Survey, Still Fed Faster Taper And First Hike In June

- GS note that household survey employment increased +1.1mn at face value, "or 1.9mn after adjusting to match the nonfarm payroll methodology" to account for those on unpaid absence, that had a job but weren't at work or who were self-employed.
- Importantly, "the payroll survey response rate was the lowest for a November in 13 years [65% vs 74% a year ago], and we place more weight than usual on the household survey this month".
- "The unemployment rate declined 0.4pp to 4.2% despite rebounding labor force participation", although the increased labour supply was consistent with a moderation in average hourly earnings to the slowest monthly pace since March.
- The U6 underemployment rate also improved (-0.5pp to 7.8%), partly reflecting a drop in the number of part-time workers for economic reasons (-137k). "The number of workers reporting being on temporary layoff declined a bit (-141k to 801k) while the number of permanent job losers also declined (-205k to 1,921k)".
- Accordingly, "the share of unemployed workers that reported being on temporary layoff decreased by 2.7pp to 11.8% and is now below its pre-pandemic level (13.7% in 2019)".
- They continue to call for the Fed to double the pace of tapering at the Dec meeting before the first rate hike in June 2022.

ING: Inflationary Details In US Jobs Report, Faster Fed Taper From Jan

- The "headline US jobs numbers were weak, but the details paint a more positive picture. Nonetheless, labour supply simply isn't returning quickly enough and for companies desperate to hire this is a huge problem".
- ING note that "the return of in person schooling, the effective Covid vaccine and the ending of extended and uprated unemployment benefits was supposed to see potential workers come flooding back".
- However, with "household wealth having increased by $26tn between end 2019 and June 2021 – equivalent to $78,000 for every American – there isn't the urgency to go and find work with many people choosing to take early retirement".
- "With inflation set to push close to 7% next week we have to be looking for a $30bn monthly reduction is QE asset purchases from January and the realistic prospect of three rate hikes in 2022 – Omicron permitting…"

JPM: Labour Market Slack Rapidly Diminishing, Still See Faster Taper

- The Nov payrolls report was particularly noisy but the underlying "signals appear to be that labor demand remains strong and that slack in the labor market is rapidly diminishing".
- The "unemployment rate continued falling like a stone" whilst weekly hours ticked up to an elevated 34.8, "indicating that firms are using their existing workforce more intensively, likely because of difficulties finding more workers".
- There was "some favorable news on labor supply, at last" with the participation rate up to a cycle high of 61.8%, but "the labor market continues to tighten across a broad array of indicators" e.g. U-6 underemployment down -0.5pps to 7.8%.
- Further, "while the 0.3% increase in average hourly earnings was a tick shy of expectations, the 4.8% annualized growth in wages over the past three months is still quite rapid (particularly given current slow productivity growth trends)".
- JPM see this report as "broadly hawkish" for Fed policy. Two months into the quarter, the unemployment rate is already tracking a half percentage point below the 4.8% the median FOMC participant expected for Q4 back in September.
- "Unless the public health news deteriorates markedly over the next ten days it's looking likely that the Committee will hasten the pace of tapering at the mid-December meeting".

TD: Still See Faster Taper But Potentially Less Hawkish Dot Plot

- Payrolls well below expectations with only relatively modest revisions and weaker than expected hourly earnings contrasted with extremely strong household survey data.
- The household survey employment series surged by 1,136k vs 210k for payrolls, although the payrolls data are much less volatile and so the weaker reading sets the tone. Even the payrolls data can be volatile, however.
- The report is unlikely to change plans at the Fed to accelerate tapering this month. The data could help make officials a bit less hawkish with their dot plot projections, however. The rise in participation and the slowing in earnings will help the case that the labor market is still a long way from "maximum employment."

Wells Fargo: NFPs Could Push Faster Taper To Jan

- "The unemployment rate tumbled to 4.2% even as the labor force participation rate rose and finally broke out of its post-pandemic range".
- However, despite the household survey strength, average hourly earnings were on the light side at 0.3% M/M and 4.8% Y/Y. "In pre-COVID times, a 0.3% monthly print would be considered fairly strong, but these are still not normal times".
- The FOMC will clearly discuss faster taper on 15 Dec, but weak payrolls and a "lighter read on average hourly earnings growth gives the Committee an out to perhaps punt to its January meeting".