Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

Job growth surprisingly resilient in November, still not cooling enough to stop the Fed's rate hikes

December 2, 2022

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Executive summary: U.S. payrolls in November increased by 263,000, above the consensus of 200,000, though it was coupled with downward revisions of 23,000 to the prior months, pulling down the six-month average to 323,000. The unemployment rate held steady at 3.7%, but the labor force participation rate edged lower.

More importantly, average hourly earnings ticked higher from October and remains well-above the pre-pandemic rate. The same occurred for rank & file workers. This indicates a stronger economy than many are giving it credit. Yet, below the surface, substantial cracks are visible, especially on the industry level, including general merchandisers and temporary help.

Ultimately, the labor market is cooling but remains surprisingly resilient. Thus, the Federal Reserve (Fed) will continue hiking interest rates to further slow the economy. However, with cooling inflationary pressures elsewhere, we believe that the Fed will stepdown the size of hikes to 0.50% at the December 14 meeting after four supersized rate hikes of 0.75%. Lastly, investors may largely ignore this report since it doesn't change the prospects of higher interest rates nor the likelihood of a recession.

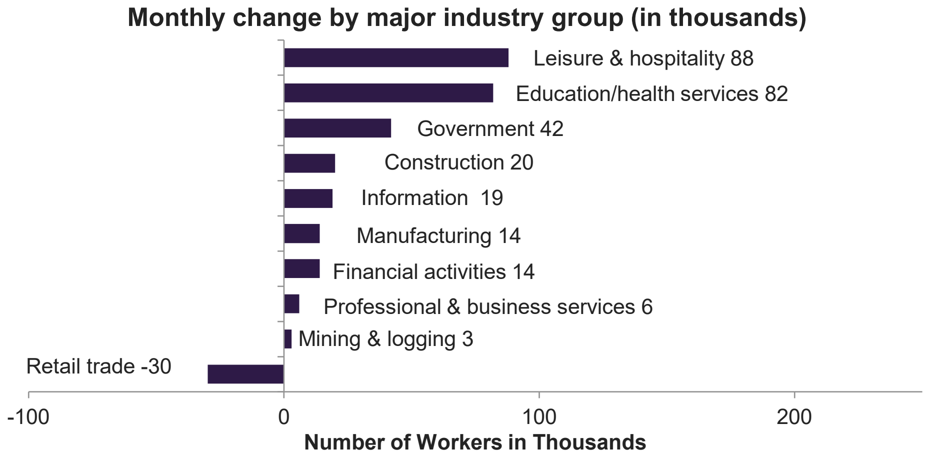
Component	November	Prior month	Six-month average	Comment
Change in payrolls	263,000	284,000	323,000	6-month average fell to the slowest pace since the reopening period in 2020. Net revisions sliced 23K for September and October. Pre-pandemic 3-year average was 177K/mo.
Unemployment rate (U-3)	3.7%	3.7%	3.6%	Held steady for a second straight month, while the size of the labor force declined for the fifth time in the past six months.
Labor force participation rate	62.1%	62.2%	62.2%	Slipped again, now 1.2 percentage points below the 2019 level.
Average hourly earnings (YoY)	5.1%	4.9%	5.1%	Rose back to 5.1% YoY. Non-supervisory also rose, to 5.8% from a near-term high of 6.7% in March but still more than double the pre-pandemic 10-year average of 2.4%.
Average weekly hours worked	34.4	34.5	34.5	Ticked down after five straight months at 34.5, roughly in-line with the pre-pandemic average. Manufacturing hours slipped, to 40.2 from 40.4, while overtime hours held steady at 3.1.

Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics

A review of the major industry trends

Private payrolls increased by 221,000 workers and government payrolls rose by 42,000. Service-providing industries added 184,000 positions, while goods producers hired 37,000.

Retail trade was the only major industry group that lost jobs during November.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Below the surface, definite cracks have appeared in recent months.

Retail trade lost 30,000 workers during November, the third straight monthly decline. Much of the pain was within general merchandise stores, which lost 32,200 jobs, offsetting small gains elsewhere. Since March, general merchandise stores have lost 129,000 positions. Apparel stores have also clipped workers, including 5,000 in this past month.

Similarly, tucked within professional & business services, temporary help shed 17,200 workers in November. Following prior monthly revisions, temporary help declined for the fourth month in a row, or a cumulative total of -46,500.

Warehousing & storage cut 12,500 workers in November, the fifth straight decline for a total of 63,500 positions. Couriers have lost 14,000 over that same span.

On the other hand, leisure & hospitality added 88,000 workers in the month, with more than two-thirds hired at restaurants (62,100). Still, the leisure & hospitality industry remains 980,000 workers below pre-pandemic levels.

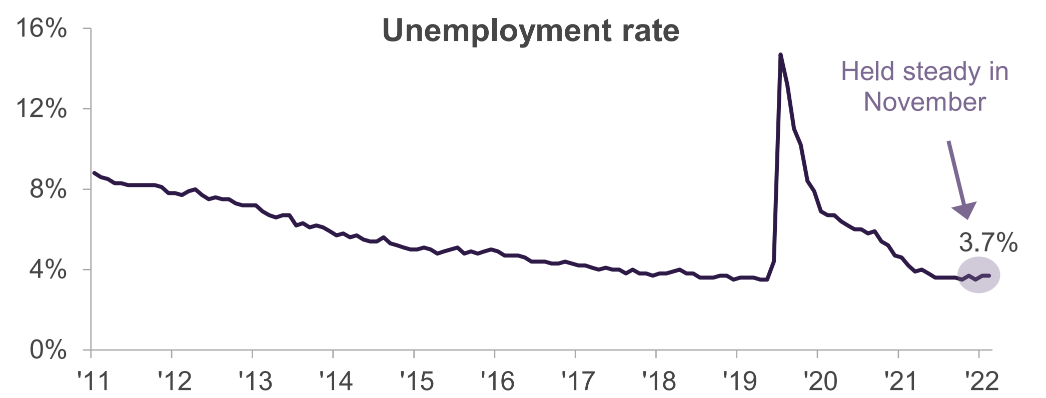
Government payrolls increased after experiencing losses during the spring and summer. Most of the recent gains have been within education, including 24,300 during November.

Lastly, health care has finally recovered to pre-pandemic levels, having lagged nearly every other major industry group except government and leisure & hospitality.

Unemployment rate steady, while wages grow

The unemployment rate stayed at 3.7% for the second straight month. The labor force fell by a rather large 186,000 in November. That's the sixth monthly decrease in the past eight months, causing the labor force participation rate to edge down by 0.1 to 61.2%. It has drifted lower since hitting 62.4% in August and remains 1.2 percentage points below the 2019 level.

The unemployment rate held steady at 3.7% in November.

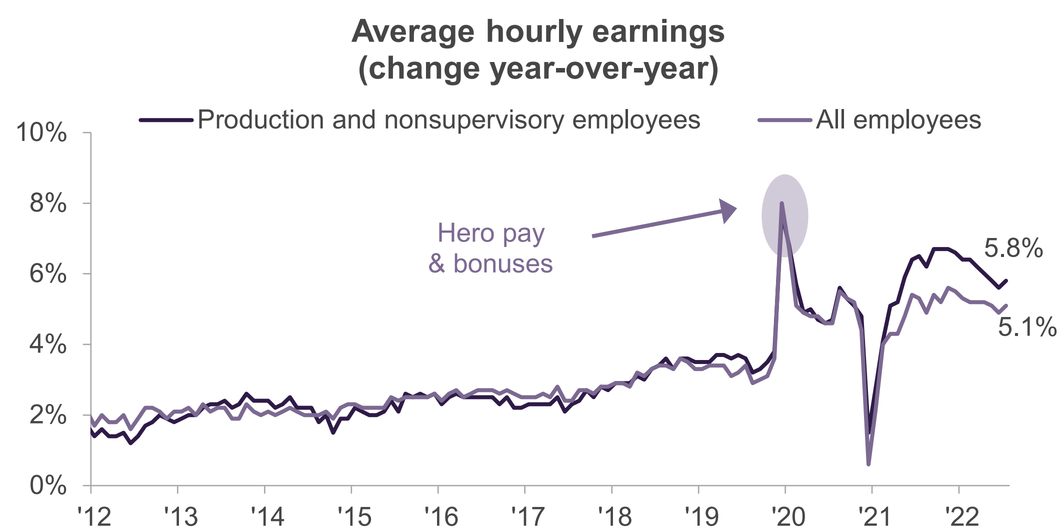


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Average hourly earnings rose 5.1% from a year ago, up from 4.9% in October. While it is down from the cycle-high of 5.6% in March, it remains well-above the pre-pandemic rate of 3.0%. Moreover, the monthly pace rose, up 0.6%, the fastest pace in 10 months.

Similarly, the pace of average hourly earnings for rank & file workers (officially known as production & nonsupervisory employees) also rose in November on both a month-over-month (up 0.7%) and year-over-year basis (up 5.8%). It, too, remains significantly above its pre-pandemic 10-year average of 2.4%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic recent wage gains have been concentrated.

The pace of average hourly earnings for production & nonsupervisory employees ticked up in November.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Hours worked—officially known as average weekly hours worked for all employees—have gradually declined since 2021, when they peaked at 35.0 hours in January 2021. Hours worked edged down in November to 34.4, now in-line with the pre-pandemic 10-year average of 34.4, after five months at 34.5. Within manufacturing, hours worked slipped 0.2 to 40.2, but overtime hours held steady at 3.1 for a second straight month. Both are largely in-line with their respective long-term averages.

Our take

Labor market conditions are clearly cooling. Indeed, we are seeing substantial cracks below the surface, especially on the industry level. Also, layoff announcements are becoming a daily occurrence.

Yet, contrary to popular belief, the economic plunge that some expect due to a recession hasn't happened. That's very consistent with historic job loss patterns, which tend to be gradual rather than falling off the proverbial table.

There is still anecdotal evidence of labor strength. In trips through Cleveland, Detroit, and South Florida in the past two weeks, we saw an inordinate number of businesses with "Help Wanted" signs, and not just at restaurants. This indicates either continued demand, worker churn, or both.

Moreover, the aforementioned layoffs have been largely in big tech and haven't really shown up thus far. Most tech jobs are categorized within the information and professional & business services industries groups. Neither of these have seen job losses, even at the sub-industry level for computer-related positions. This suggests that many of these workers are finding other jobs, skipping the unemployment line at least for now.

It's also important to note that the unemployment rate – and most of the employment data – are lagging indicators. The notable exception is weekly jobless claims, which have risen from historic lows but aren't hoisting a recessionary flag just yet.

This indicates a stronger economy currently than many are giving it credit. Again, not as strong as it was in 2021, but not so weak as to see companies dumping workers in big numbers. As we mentioned last month, there appears to be an increasing trend of firms using attrition—so-called "hiring freezes"—or ratcheting back on hiring plans, particularly large companies. Neither of those spells dramatically higher job losses and an unemployment rate north of 7.7%, which is the average peak level during recessions since 1950 (excluding the pandemic recession that hit 14.7%).

Ultimately, this is a challenge for the Fed, which will continue hiking interest rates to further slow the economy. Yet, given clear signs of cooling inflationary pressures elsewhere, we believe that the Fed will stepdown the size of hikes to 0.50% at the December 14 meeting after four supersized rate hikes of 0.75%. Beyond that, the Fed will need further evidence of cooling, especially by the labor market, before it slows the pace or stops rate hikes.

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CN2022- 5281193.1 11-2023