CenterState
CORRESPONDENT DIVISION

Market Update

Economic News

December 6, 2019

The November jobs report easily beat expectations and will buttress the Fed's case for remaining in pause mode this month and well into 2020 as well. Job gains totaled 254,000 in November versus the 180,000 Bloomberg consensus. Even after accounting for the return of 50,000 striking GM workers the net gain of 204,000 easily topped October's upwardly revised 156,000 print. Wage gains were a mixed bag, missing on the monthly print 0.2% versus 0.3% expected but beating on the YoY number 3.1% versus 3.0% expected. October's wage numbers were revised up, so on net a solid showing for wages but they still seem stuck around 3.0% YoY after hitting 3.4% in February (we have more to say on wages in the next section). Finally, the unemployment rate dipped a tenth to the cycle low of 3.5% that it hit back in September, but in reality it was a modest move (3.535% vs. 3.562% in October). In summary, solid job growth, modest wage gains, and stable unemployment rates will keep the Fed in pause mode this month and well into the first half of 2020.

- For the month, 254,000 jobs were created versus an expected increase of 180,000. In addition, the November number is the largest monthly gain since January's 312,000 print and, of course, represents a healthy sequential increase versus October's upwardly revised 156,000 gain (originally reported at 128,000). Even after backing out the return of 50,000 GM strikers a net gain of 204,000 still beats October's print easily. The prior two months' results were revised up by 41,000 jobs which paints the picture of a jobs market that maintains solid momentum. The bifurcation of the economy continues, however, with strength exhibited in the services sector which continues to add jobs in the 170,000-200,000 range while the manufacturing sector continues to struggle in adding any net jobs on a monthly basis, losing 2,000 jobs in November after accounting for the returning GM strikers.

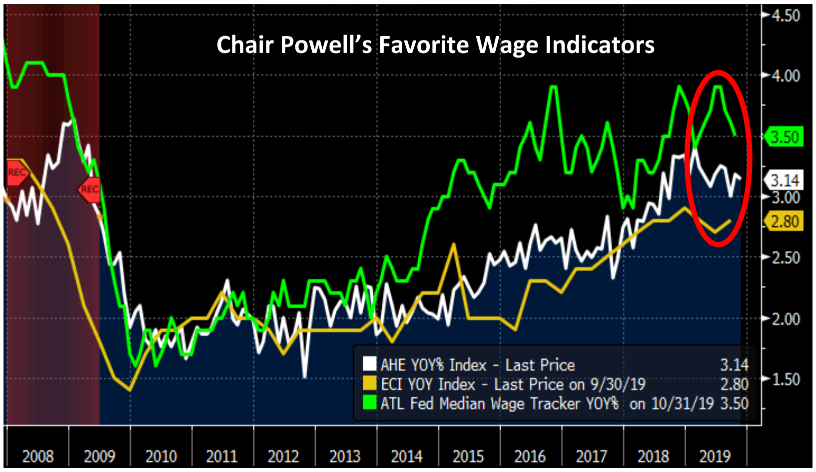
- Upward adjustments to October wage data made for slightly worse comparisons but the results still paint a picture of a healthy labor market. Average hourly earnings were up 0.2% missing the 0.3% forecast, and behind October's upwardly adjusted 0.4% (originally reported at 0.2%). Year-over-year earnings ticked down a tenth to 3.1% but that beat the 3.0% pre-release expectation. As we've mentioned in recent months, YoY wage gains appear to be plateauing around 3.0% versus moving materially higher as was the case earlier in the year. February's 3.4% YoY gain remains the high for this cycle but that gain pales in comparison to the 4.0+% YoY gains in expansions past. That means demand-pull inflation is unlikely to accelerate and that will help the Fed's case in remaining firmly in pause mode.

- The unemployment rate ticked down a tenth to 3.5% (actually 3.535% vs. 3.562% in October), but as the unrounded number attests the change is rather immaterial. The Household Survey—which is used to generate the various employment ratios— saw 44,000 persons leave the ranks of the unemployed (5.811 million versus 5.855million) while 40,000 persons were added to the labor force denominator (164,404 million vs. 164,364 million). Much of the dip in unemployed came as a result of the 50,000 GM workers returning from their October strike. The stability in the unemployment rate is another indicator of labor market strength.

- The broader underemployment rate (unemployed plus part-timers seeking full-time work, plus the marginally attached) dipped a tenth to 6.9% which is a return to the cycle low first touched in September. As mentioned, unemployed persons decreased by 44,000 while part-time workers decreased by 116,000 and 15,000 were added to the marginally attached (those willing to work but not actively looking). Again, the stability in unemployment rates, and returning to September cycle lows, will play well with the Fed's desire to pause rate cuts fore the foreseeable future.
- The labor force participation rate (labor force divided by civilian population) dipped a tenth to 63.2%. The slight dip was driven by the aforementioned 40,000 person increase in the labor force while the civilian population rose by a larger 175,000 persons. While the current rate remains near the 63.3% cycle high from October, it pales in comparison to the 66% level that prevailed pre-crisis. The 62.7% to 63.3% range over the past year appears to be the new full employment normal given the aging of the working population and slowing population gains.

In summary, even after accounting for the return of 50,000 GM strikers during the month, labor market growth continues to look strong. The bifurcation of the economy continues, however, with strength exhibited in the services sector which continues to add jobs in the 170,000-200,000 range while the manufacturing sector continues to struggle in adding any net jobs (again, after accounting for the returning GM strikers). The solid job growth, stable unemployment rates and modest wage gains will keep the Fed in pause mode this month and most likely well into the first half of 2020.

Wage Gains Show Signs of Plateauing



With the Fed in pause mode, and likely to stay there well into 2020, wages and labor gain momentum will be an early tell on when the Fed may move off the pause button and back to easing. While today's report certainly buttresses the case for pausing, the plateauing of wage gains will go on the radar for future rate decisions in 2020. If monthly job gains start to moderate, and wage gains fail to ramp higher, or fall, the Fed will move back to an easing mode, especially if inflation remains docile, as expected. For now, however, those conditions don't exist but expect the Fed to be aware of and watchful over them as move into the early months of 2020.

Market Rates

Treasury Curve	Today	Chg Last wk.	LIBOR Rates	Today	Chg Last wk.	FF/Prime	Rate	Swap Rates	Rate
3 Month	1.53%	+0.01%	1 Mo LIBOR	1.77%	-0.07%	FF Target Rate	1.50%-1.75%	3 Year	1.625%
6 Month	1.54%	-0.01%	3 Mo LIBOR	1.89%	-0.02%	Prime Rate	4.75%	5 Year	1.645%
2 Year	1.63%	+0.07%	6 Mo LIBOR	1.89%	-0.04%	IOER	1.55%	10 Year	1.784%
10 Year	1.85%	+0.14%	12 Mo LIBOR	1.92%	-0.06%	SOFR	1.55%		

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