

ECONOMIC ALERT

U.S. EMPLOYMENT SITUATION - DEC 2017

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Nonfarm Payrolls: +148,000 month-over-month (Cons: +190,000), +2.06 million year-over-year

Unemployment Rate: 4.1% (Cons: 4.1%), Unchanged month-over-month, -0.6 ppt year-over-year

Weekly Hours: 34.5 hours (Cons: 34.5 hours), Unchanged month-over-month, +0.1 hours year-over-year

Hourly Earnings: \$26.63, +0.3% month-over-month (Cons: +0.3%), +2.5% year-over-year

Quick Take:

Private payrolls increased by 148,000 in December, which was below the consensus estimate. November and October payroll gains figures were revised down by -9,000 collectively. December's figure is below the 2017 monthly payroll gain average of 171,000.

The below consensus payroll gains number for December lines up with our expectation that the level of monthly payroll additions will continue to steadily decline as labor markets tighten. U.S. labor markets have greatly improved since the financial crisis and the ratio of 25 to 54 year olds who are employed has almost returned to pre-crisis levels. At this point in the cycle, payroll gains should be more limited and we expect the total number of employed to grow at a moderate pace as the unemployment rate approaches its natural equilibrium.

Despite the evidence of tightening labor markets, accelerating wage growth has yet to appear. Since Q2 2015, year-over-year growth in average hourly earnings has remained between 2.1% and 2.9%. Average hourly earnings grew 2.5% year-over-year in December. It is possible that the typical relationship between labor demand and wage growth has taken longer to materialize in this economic cycle due to structural factors such as globalization, lower labor force participation, and slow global growth. Nevertheless, as jobs continue to be filled and the supply of available domestic labor diminishes, our expectation remains that labor market tightness will eventually put upward pressure on wages and salaries.

WESTEND ADVISORS



Source: Bloomberg, WestEnd Advisors

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