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## November Employment Report: Job Growth Surprisingly Strong

- › Nonfarm employment **rose** by 266,000 jobs in November; prior estimates for September/October were revised **up** by a net 41,000 jobs
- › Average hourly earnings **rose** by 0.2 percent in November; aggregate private sector earnings were **up** 0.4 percent (up 4.8 percent year-on-year)
- › The unemployment rate **fell** to 3.5 percent in November (3.53 percent, unrounded); the broader U6 measure **fell** to 6.9 percent

Total nonfarm employment rose by 266,000 jobs in November, far stronger than we and the consensus expected, with private sector payrolls up by 254,000 jobs and public sector payrolls up by 12,000 jobs. Prior estimates of job growth in September and October were revised up by a net 41,000 jobs for the two-month period. The return of striking GM workers, who were not counted as employed in October, added just over 41,000 jobs to measured November job growth, but even allowing for this, job growth was surprisingly strong. Moreover, the one-month hiring diffusion index, a measure of the breadth of job growth across private sector industry groups which is one of our favorite leading indicators, rose to 61.6 percent in November from 52.7 percent in October. Average hourly earnings were up by 0.2 percent in November, leaving them up 3.1 percent year-on-year and the unemployment rate slipped back to 3.5 percent. While we do not believe the underlying rate of job growth to be nearly as strong as implied by November's job growth, the November employment report should at least allay concerns the broader economy is being dragged toward recession by the struggling industrial sector.

Total manufacturing payrolls rose by 54,000 jobs in November. As noted above, this includes the return of the striking GM workers, but even after netting out the motor vehicles and parts industry group, this marks the second straight month in which factory sector payrolls increased. This seems at odds with data from the ISM Manufacturing Index, which has shown factory sector payrolls falling in each of the past four months. To that point, the one-month hiring diffusion index for the manufacturing sector rose to 54.6 percent in November after having fallen to 36.2 percent in October. While we're not by any means suggesting the factory sector is out of the woods, it is at least worth raising the possibility that the factory sector has stabilized to a greater extent than implied by the ISM data, which was our premise before the disappointingly soft print on the ISM's report for November.

Outside of manufacturing, November job growth was led by health care (+45,200), business services (+38,000), and leisure & hospitality services

(+45,000). As we noted in our weekly *Economic Preview*, an ongoing oddity in the monthly employment data has been the strength of hiring amongst restaurants. Over the past four months, payrolls in leisure & hospitality services have risen by 219,000 jobs, with hiring amongst restaurants accounting for 149,000 of these jobs. We can attribute this to one of two things – either it is statistical noise reflecting payback for hiring amongst restaurants having been atypically weak earlier in the year, or it is that America is really, really hungry and just doesn't feel like cooking. We've opted for statistical noise – for instance, the not seasonally adjusted data show restaurant payrolls have fallen in each of the past two months while the seasonally adjusted data show a net gain of 77,400 jobs – but if this streak continues, we'll have to rethink this.

In any given year, one wild card in the November employment data is holiday season hiring in retail trade and in warehousing and delivery services. Given the ongoing shifts in consumer spending patterns, it is no surprise that holiday season hiring in retail has diminished in recent years, while hiring in warehousing and delivery services has grown stronger. This year saw not seasonally adjusted payrolls in retail trade increase by 466,400 jobs, compared to 494,800 jobs last November. At the same time, hiring in warehousing and delivery (courier) services rose by 132,900 jobs (not seasonally adjusted) this November, compared to a gain of 115,500 jobs last November. To be sure, holiday related hiring begins in October and runs through early December, so it is the period as a whole that matters, but the shift in hiring patterns will continue to mimic the shift in consumer spending patterns.

Though the November data likely overstate the case, labor market conditions remain solid. We repeatedly stress the importance of looking beneath the headline job growth number in any given month, and that hiring remains so broad based across private sector industry groups tells us that, while the underlying pace of job growth may be slowing, job growth is not about to grind to a halt. In turn, solid growth in aggregate labor earnings is providing support for growth in consumer spending.

