Northern Trust

ECONOMIC UPDATE

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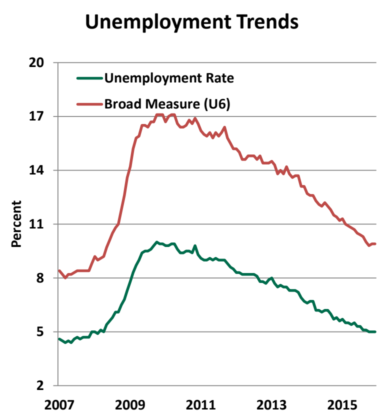
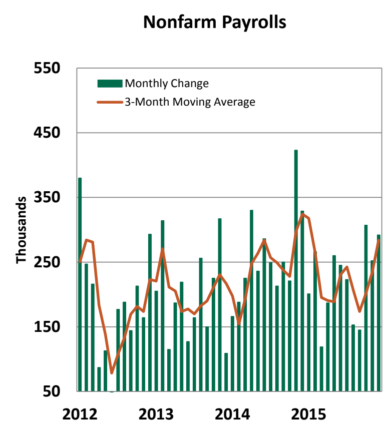
• An Almost Perfect Employment Report

After a string of bearish market tidings in the past week, the December U.S. employment report brings relief. The U.S. labor market stands on solid ground.

The unemployment rate held steady at 5.0% in December, down six-tenths from a year ago. Encouragingly, the labor force participation rate edged up one notch to 62.6%, and workers employed part-time for economic reasons fell modestly. The share of long-term unemployment rose in December, but it is down significantly from a year ago.

Payroll employment shot up 292,000 in December, and employment gains were higher by 50,000 in October and November after revisions. Job gains averaged 284,000 over the past three months, and a total of 2.7 million jobs were created in 2015 versus 3.1 million in 2014. The diffusion index of employment at 64.4 suggests that hiring was widespread across industries, and it is the best reading for 2015.





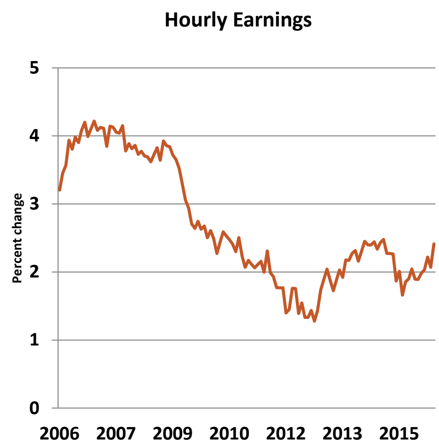
Source: Haver Analytics

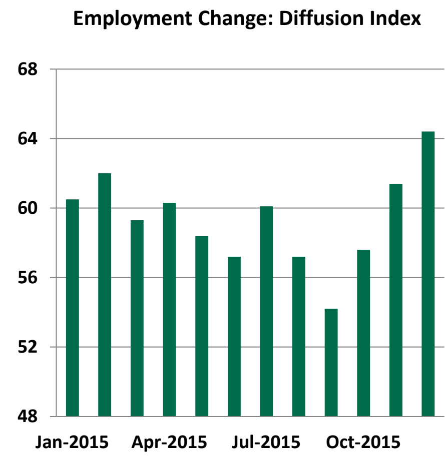
Fair weather helped to boost construction employment in November (48,000) and December (45,000). Factory hiring rose 8,000 but will be held back going forward by the decline in oil prices and a strong dollar. Ranks of factory workers rose only 30,000 in 2015 after strong growth (215,000) in 2014. Employment declines in the oil-related industry continue, and the weakness of the past year exceeds the losses seen during the Great Recession.

Professional and business services, health care and restaurants posted relatively large increases in service sector employment. Federal government employment moved up in December, with the increase in 2015 marking the first annual gain since 2010.

The average workweek and hourly earnings were both stable in December. The latter outcome was disappointing, even though wages are up by 2.5% from a year ago. Hourly earnings have slipped across several industries in the past two Decembers only to recover in January. This suggests there may be a bit of noise to consider.

Wage growth is imperative for the FOMC to hike.





Source: Haver Analytics

Disappointing hourly earnings tainted the nearly perfect employment report. The bottom line is that employment compensation and inflation readings are not in place for the Federal Open Market Committee to consider another hike at the January 26-27 meeting. The market volatility seen so far this year will also give the Fed pause.

Overall growth momentum in the fourth quarter appears to be on the soft side, as firms seem to be working inventories down rather than producing anew. It will be interesting to see whether growth levels rise to match the returns from the labor market, or the other way around.

For now, though, the strength of today's U.S. employment report provides an upbeat end to what has been a challenging week in the markets.