

ECONOMIC UPDATE

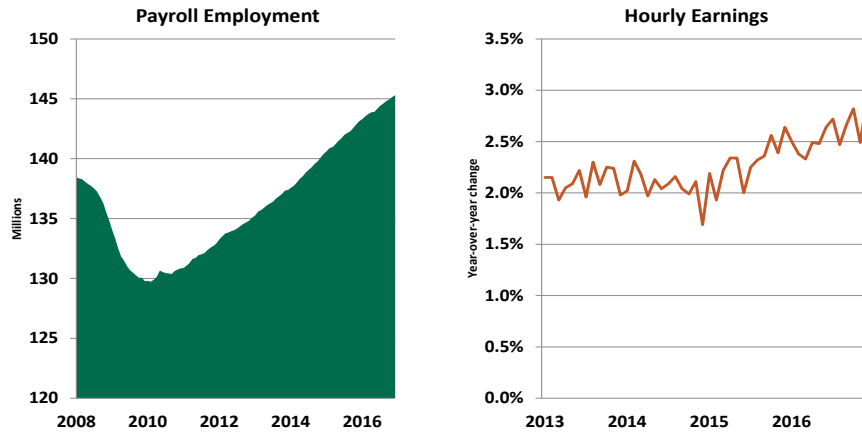
January 6, 2017

- **U.S. Job Report: The Wage Bill Comes Due**

The first significant U.S. economic release of the new year was a solid one. The U.S. Department of Labor reported this morning that 156,000 new jobs had been created in December. In addition, the readings for the prior two months were increased by a cumulative 19,000 positions; taken together, these totals fell right into line with consensus expectations.

As we've noted before, monthly payroll increases of only about 80,000 to 100,000 are sufficient to keep unemployment stable, given current American demographics. So this morning's outcome is very good. In total, more than 15 million new jobs have been created since the beginning of 2010, and this was the 75th consecutive month that payrolls have risen.

The unemployment rate backed up a fraction, from 4.6% to 4.7%. This was not a surprise; the unemployment rate had taken an unexpected tumble last month when the size of the labor force declined. Updated figures show that the labor force returned to its October level. Annual benchmark revisions to the employment data had little impact.



Source: Haver Analytics

The overall unemployment reading is certainly an incomplete measure of labor market performance, as there are cohorts who continue to face significant obstacles as they seek work. On the other side, however, there appears to be a growing number of areas where employment conditions are tight. This is apparent in the escalating pace of wage increases: hourly earnings have risen 2.9% over the past twelve months, the biggest gain in almost eight years.

This outcome illustrates one of the challenges facing U.S. fiscal strategy. Attempts to stimulate growth with tax cuts or infrastructure spending may stress labor supply and increase inflation. That, in turn, might lead the U.S. Federal Reserve to move sooner and more rapidly to raise interest rates, dampening activity and raising debt service. The fiscal/monetary dynamic in the United States is one of the key themes we'll be watching in 2017.

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