Market Insights

Solid job gains, but disappointing wage growth

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THE DECEMBER EMPLOYMENT REPORT WAS SLIGHTLY WEAKER THAN EXPECTED, BUT CONTINUES TO SIGNAL A RESILIENT LABOR MARKET. TOTAL NONFARM PAYROLL EMPLOYMENT ROSE BY 145,000, BELOW CONSENSUS OF 158,000, AND THE UNEMPLOYMENT RATE WAS UNCHANGED AT 3.5%. DOWNWARD REVISIONS MADE TO PAYROLLS IN OCTOBER AND NOVEMBER SHOWED A COMBINED REDUCTION OF 14,000 PAYROLL JOBS THAN PREVIOUSLY REPORTED.

Notably, job gains were particularly strong in retail trade and health care, likely reflecting a modest bounce back from declines seen last month and potentially some seasonal holiday hiring. Elsewhere, manufacturing employment declined by 12,000 in December, suggesting trade tensions continue to weigh on the sector.

Somewhat remarkably, the steady growth in the labor force experienced has not provided the same upward pressure on wages that it has in the past. Wage growth, after showing some signs of firming in recent months, took a breather in December, rising just 0.1% m/m for all employees and private production and nonsupervisory workers, and up an anemic 2.9% and 3.0% year-over-year pace, respectively. This dynamic should keep corporate profit margins fairly intact and fears of an inflation spike at bay in 2020.

Recapping 2019, the labor market could be described as solid, yet gradually decelerating. The average pace of monthly job gains were 176,000 in 2019, relative to 223,000 in the year prior leading total payroll employment to rise by 2.1 million last year, relative to 2.7 million in 2018. Looking ahead, it should be recognized that annual seasonal revisions to the Household Survey Data will take place this month and be reflected in the January employment report. These revisions, however, should not alter the general downward trend in employment growth.

Overall, a slowing labor market is reflective of a slowing U.S. economy, a dynamic that should persist through 2020. Still, steady gains in payrolls should allow the unemployment rate to gradually decline to 3.3% by the end of this year as the remaining labor supply is absorbed and wages to rise modestly. This, in turn, should allow consumption to grow at a healthy pace and for inflation to gradually move higher. Altogether, labor market trends, as signaled by the December employment report, should keep the Fed on the sidelines in 2020.

NEXT STEPS

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