

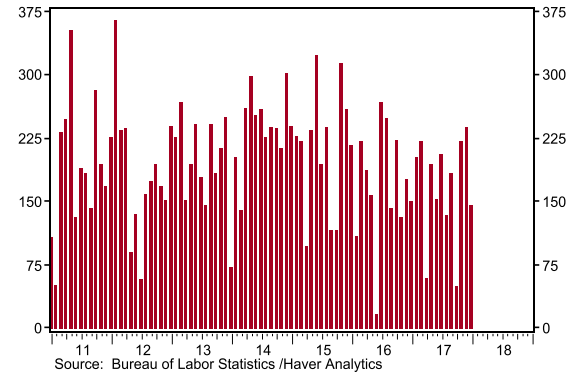
December Employment Report

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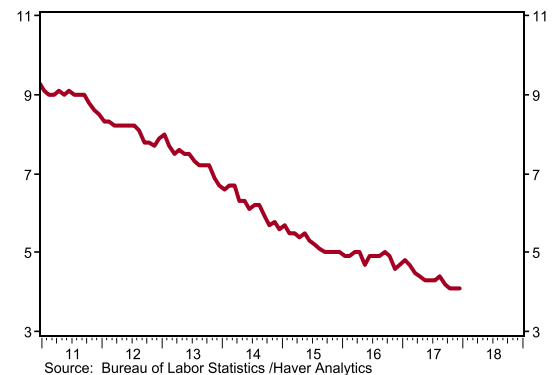
- Nonfarm payrolls rose 148,000 in December, falling short of the consensus expected 190,000. Including revisions to October/November, nonfarm payrolls increased 139,000.
- Private sector payrolls rose 146,000 in December and revisions to prior months subtracted 7,000. The largest increases in December were for health care (+31,000), construction (+30,000), restaurants & bars (+25,000), and manufacturing (+25,000). Government rose 2,000.
- The unemployment rate remained at 4.1%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in December and are up 2.5% versus a year ago.

Implications: Job growth moderated in December, but the underlying trends in the labor market remain strong. Nonfarm payrolls rose 148,000, lagging the consensus expected 190,000. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose a below-average 104,000. In the past year, nonfarm payrolls are up 171,000 per month while civilian employment is up 200,000 per month. We think the underlying trend is somewhere between those two figures and think the tax cuts enacted at the end of last year will keep hiring robust even as businesses strive to raise productivity. The unemployment rate, which finished 2016 at 4.7%, closed last year at 4.1%. Look for further declines in 2018 in spite of an increase in the growth in the labor force. We're looking for the jobless rate to finish 2018 at 3.7%, which would beat the lowest rate of 3.8% in 2000 at the peak of the tech boom. The lowest jobless rate in the 1960s was 3.4%. With the cut in the corporate tax rate, we think that record will fall in 2019, eventually hitting the lowest level since the early 1950s. Although a relatively low participation rate makes it easier to have a lower unemployment rate, at 62.7%, the participation rate is exactly where it finished 2015 and 2016 as well. The best news in today's report was a drop in the median duration of unemployment to 9.1 weeks, the lowest since before the start of the financial crisis in 2008. As usual, we like to follow total earnings, which combines the total number of hours worked and average hourly earnings. Average hourly earnings rose 0.3% in December, while total hours worked increased 0.2%. Put it all together and total earnings are up a sturdy 4.5% from a year ago, signaling plenty of growth in consumer purchasing power. In other recent news on the job market, initial jobless claims rose 3,000 last week while continuing claims fell 37,000. Look for another solid report in January, although the continued cold spell in much of the country might put some temporary downward pressure on jobs for the month. If so, don't fall into the trap of thinking the good times are over. Job gains should rebound in the following months.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Dec-17	Nov-17	Oct-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.1	4.1	4.1	4.1	4.2	4.4
Civilian Employment (monthly change in thousands)	104	71	-478	-101	129	200
Nonfarm Payrolls (monthly change in thousands)	148	252	211	204	166	171
Construction	30	27	15	24	17	18
Manufacturing	25	31	23	26	20	16
Retail Trade	-20	26	-20	-5	-3	-6
Finance, Insurance and Real Estate	6	7	8	7	9	11
Professional and Business Services	19	49	47	38	39	44
Education and Health Services	28	50	17	32	36	37
Leisure and Hospitality	29	17	104	50	19	26
Government	2	13	-11	1	4	4
Avg. Hourly Earnings: Total Private*	0.3%	0.1%	-0.1%	1.5%	2.8%	2.5%
Avg. Weekly Hours: Total Private	34.5	34.5	34.4	34.5	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.5%	0.2%	3.4%	1.7%	2.0%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized