First Trust DATAWATCH
January 4, 2019 • 630.517.7756 • www.ftportfolios.com

December Employment Report

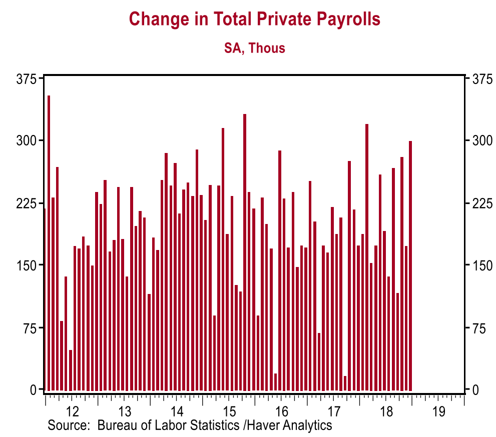
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

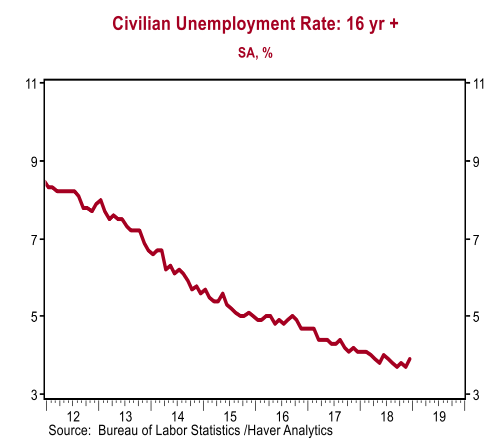
- Nonfarm payrolls rose 312,000 in December, destroying the consensus expected 184,000. Including revisions to October/November, nonfarm payrolls increased 370,000.

- Private sector payrolls rose 301,000 in December and revisions to prior months added 42,000. The largest increases in December were for education & health services (+82,000), accommodations & food service (+49,000), professional & business services (+43,000, including temps), construction (+38,000), and manufacturing (+32,000). Government rose 11,000.

- The unemployment rate rose to 3.9% in December from 3.7% in November.

- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.4% in December and are up 3.2% versus a year ago.





Implications: Job growth surged in December, easily beating even the most optimistic forecast by any economics group and severely undermining the theory that the US is on the verge of a recession. Nonfarm payrolls rose 312,000 in the last month of the year and were revised up a substantial 58,000 for prior months. Civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 142,000, but that series is very volatile from month to month. For 2018 as a whole, nonfarm payrolls rose 220,000 per month while civilian employment increased 217,000 per month. These are very robust figures given that we started the year eight and half years into an economic recovery. Although the unemployment rate rose to 3.9%, that was in large part due to a strong 419,000 increase in the labor force. For 2018 as a whole, the jobless rate fell only 0.2 percentage points (it ended 2017 at 4.1%), the smallest drop for any year so far in the recovery, even though we likely had the best economic growth for any calendar year so far in the recovery. Faster growth with robust job gains and slower declines in the unemployment rate suggest something happened in 2018 to boost productivity and change the recovery for the better; we think that was a combination of the tax cut and deregulation, which should continue to support growth in 2019. Accelerating wages are another sign of improvement. Average hourly earnings rose 0.4% in December and are up 3.2% from a year ago. (Remember, that's in spite of that measure excluding extra earnings from irregular bonuses and commissions, like those paid out after the tax cut was passed.) Meanwhile, total hours rose 0.5% in December and are up 2.0% in the past year. As a result, total cash earnings are up 5.2% in the past year, easily surpassing inflation and more than enough to keep consumer spending growing. What does this mean for the Fed? If the economic data were the only issue, the Fed could raise rates as often as four times in 2019, the same as in 2018. However, we think the Fed wants to avoid the federal funds rate getting higher than the 10-year Treasury Note yield, which means the Fed would stand pat if Treasury yields stay where they are today. In the end, we think the 10-year yield rises due to solid economic data and the fed ends up hiking rates twice in 2019, maybe more if yields rise enough. Not every jobs report will be as strong as December's, but those fearing a recession or significant slowdown are too bearish on the US. In other recent news, automakers reported selling cars and light trucks at a 17.6 million annual rate in December, up 0.3% from November, up 0.7% from a year ago, and easily beating the consensus expected 17.2 million pace. However, sales for all of 2018 were down 0.1% from 2017 and we expect a gradual decline in the next few years in spite of solid economic growth overall.

Employment Report *All Data Seasonally Adjusted*	Dec-18	Nov-18	Oct-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**3.9**	3.7	3.8	3.8	3.8	3.9
Civilian Employment (monthly change in thousands)	**142**	221	513	292	226	217
Nonfarm Payrolls (monthly change in thousands)	**312**	176	274	254	222	220
Construction	**38**	0	31	23	22	23
Manufacturing	**32**	27	29	29	23	24
Retail Trade	**24**	29	0	18	6	8
Finance, Insurance and Real Estate	**6**	1	10	6	8	9
Professional and Business Services	**43**	44	56	48	48	49
Education and Health Services	**82**	21	44	49	43	43
Leisure and Hospitality	**55**	18	67	47	31	26
Government	**11**	3	-7	2	9	6
*Avg. Hourly Earnings: Total Private**	**0.4%**	0.2%	0.2%	3.4%	3.7%	3.2%
Avg. Weekly Hours: Total Private	**34.5**	34.4	34.5	34.5	34.5	34.5
*Index of Aggregate Weekly Hours: Total Private**	**0.5%**	-0.2%	0.5%	3.7%	1.5%	2.0%

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