

Economic Indicator — December 3, 2021

## November Employment Report: A Tale of Two Surveys

### Summary

Nonfarm payrolls rose a disappointing 210K in November, with softness spread throughout a number of industries. Average hourly earnings growth also cooled to 0.3% over the month. Yet the household survey indicated that the labor market continues to rapidly tighten. The unemployment rate tumbled to 4.2% even as the labor force participation rate rose and finally broke out of its post-pandemic range. The FOMC will clearly be discussing a faster taper at its upcoming December 15 meeting, but this morning's payroll number and lighter read on average hourly earnings growth gives the Committee an out to perhaps punt to its January meeting.

Economist(s)

#### **Sarah House**

Senior Economist | Wells Fargo Securities, LLC  
Sarah.House@wellsfargo.com | 704-410-3282

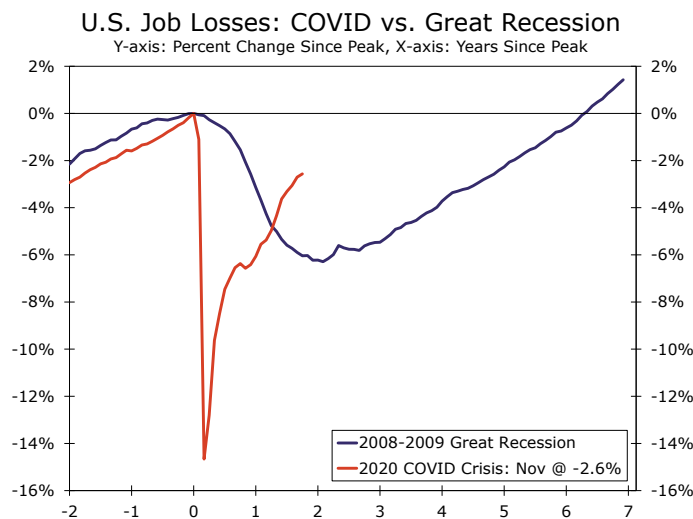
#### **Michael Pugliese**

Economist | Wells Fargo Securities, LLC  
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

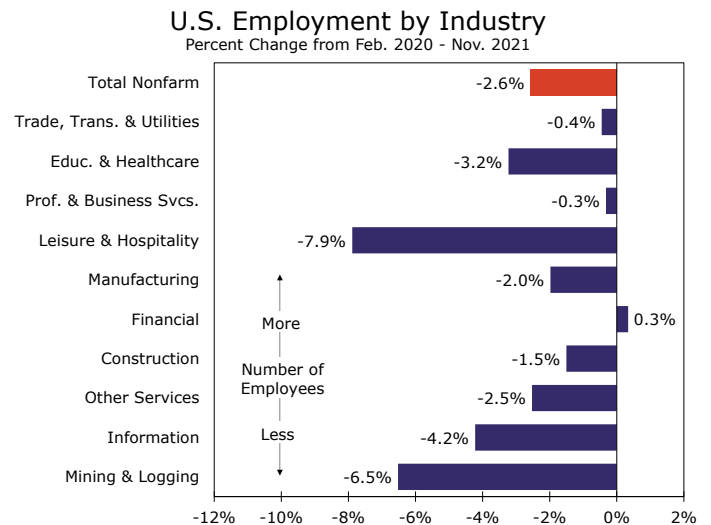
## A Headline Disappointment, but Some Encouraging Details

Nonfarm payrolls rose 210K in November, a disappointment relative to the Bloomberg consensus that was looking for a 550K increase. Job growth was upwardly revised by 82K over the previous two months. With just one final employment report left in 2021, nonfarm payrolls are roughly four million jobs below their pre-pandemic level. Job growth is still easily outpacing the slow pace that the U.S. labor market experienced during the recovery from the 2008-2009 financial crisis ([Figure 1](#)).

The miss cannot be blamed on any single industry, with the diffusion index of industries adding jobs sinking to a seven-month low. Employment in the leisure & hospitality industry rose just 23K in November. Payrolls in this sector are still 1.3M (7.9%) below their February 2020 level, and at the November pace of growth it would take several more years to fully recover those lost jobs ([Figure 2](#)). With COVID cases on the rise and Omicron renewing COVID fears, it may be a few months before leisure & hospitality employment materially accelerates. Retail trade employment declined by 20K as seasonal holiday hiring may have been pulled forward and struggled against a general lack of labor. Health care employment rose just 2K, and the nursing & residential care facilities sub-sector lost 11K jobs. Government employment also declined amid a 27K decline in state and local government payrolls. We covered the labor scarcity and hiring challenges facing state and local governments in more detail in a recent [special report](#). A few sectors, however, did see solid job growth including professional & business services (90K), transportation & warehousing (50K), construction (31K) and manufacturing (31K).



Source: U.S. Department of Labor and Wells Fargo Securities

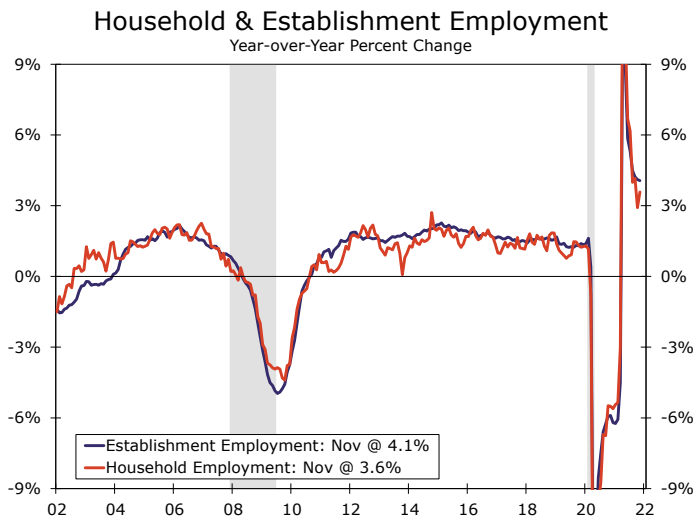


Source: U.S. Department of Labor and Wells Fargo Securities

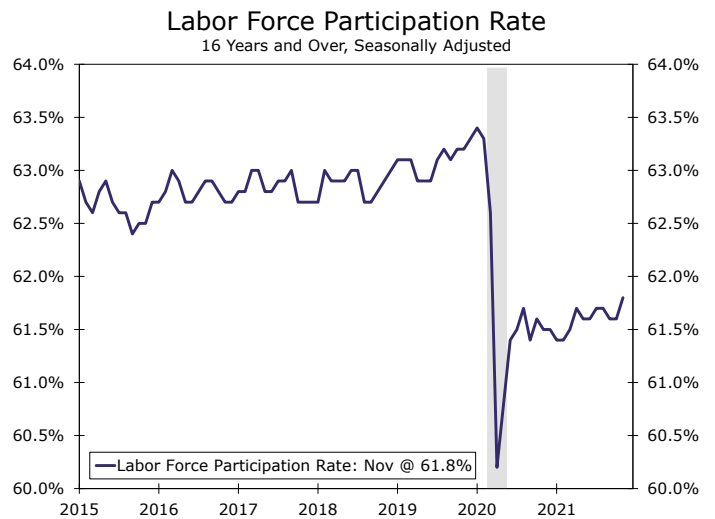
## A House Divided Cannot Stand

While the establishment survey left much to be desired, the household survey pointed to a labor market that continues to make significant headway toward full employment. According to the household measure of employment, 1.14M individuals obtained paid work in November. That puts the gain in household employment, which is much more volatile on a month-to-month basis, more closely in line with the establishment survey's payroll numbers over the past year, although there may still be a bit more room for catch up on this front ([Figure 3](#)).

However, the surge in household employment went a long way in further bringing down unemployment. The unemployment rate tumbled 0.4 points in November to 4.2%. As we have noted for some time now, the availability of labor has been a major impediment to hiring. But that challenge may be getting slightly easier. The labor force rose by 594K, leading the participation rate to finally break out of its pre-pandemic range. Nevertheless, there remain 2.4M fewer workers in the labor force since February 2020, before even factoring in the number of workers who would have joined as we discussed in another recent [report](#).



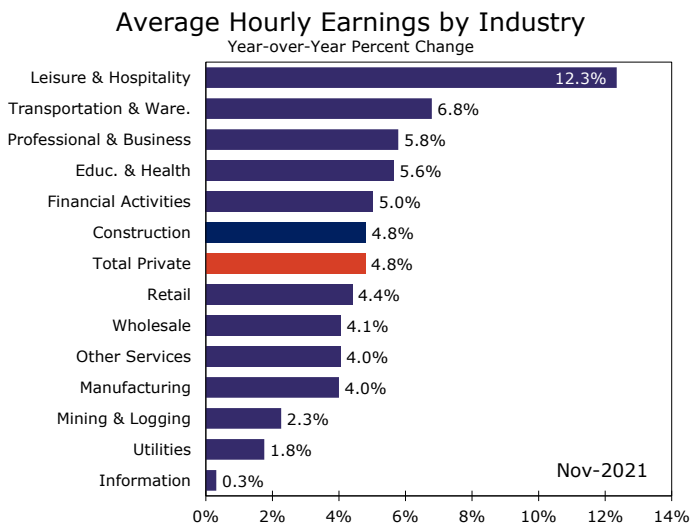
Source: U.S. Department of Labor and Wells Fargo Securities



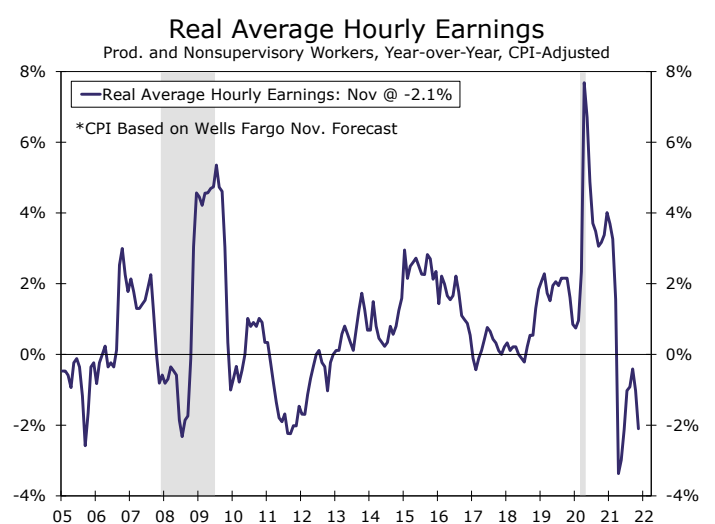
Source: U.S. Department of Labor and Wells Fargo Securities

Average hourly earnings growth came up a bit light in November, rising 0.3% in the month and 4.8% on a year-ago basis. In pre-COVID times, a 0.3% monthly print would be considered fairly strong, but these are still not normal times. Wage pressures remained especially strong in lower-paying sectors, with leisure & hospitality hourly earnings up 0.8% and retail up 0.4% (Figure 5). The scorching hot transportation & warehousing sector saw average hourly earnings up 1.1% in November.

Although we do not yet have data for November inflation, prices almost certainly rose in the month, and headline CPI was already up 6.2% year-over-year in October. This suggests that inflation-adjusted average hourly earnings are down roughly 2% on a year-over-year basis (Figure 6). But with hundreds of thousands of workers gaining employment each month, aggregate labor income has grown 10.4% over the past year. In addition, some fiscal support is still flowing, such as the monthly Child Tax Credit payments that began in July and end in December. Household balance sheets also remain strong and are buoyed by a significant amount of "excess savings" accumulated during the pandemic. As a result, real consumer spending remains set for solid growth in the coming months, even as fiscal support fades further into the distance.



Source: U.S. Department of Labor and Wells Fargo Securities



Source: U.S. Department of Labor and Wells Fargo Securities

In our view, this morning's employment report leaves the FOMC in a bit of a gray zone. Key Fed officials have been talking up the prospect of a faster taper in recent weeks, with a possible policy shift occurring as soon as the December 15 FOMC meeting. This morning's report was a clear

disappointment in that nonfarm payrolls were well-below consensus expectations. In addition, a slower pace of wage growth may slightly ease some concerns about a wage-price inflation spiral. That said, Fed officials have stressed the importance of labor supply growth, and labor force growth finally showed some signs of a pickup in November. The FOMC will clearly be discussing a faster taper at its next meeting, but this morning's report gives the Fed an out if it would like to wait an extra six weeks until its following meeting in late January 2022. We will cover the outlook for the December 15 FOMC meeting in further detail in our FOMC flashlight preview to be released early next week.

The Omicron variants adds additional uncertainty to whether job growth can rebound to a more robust pace through the winter as health concerns flare up again. With still so little known about the severity of the new variant at this stage, we continue to expect hiring to remain solid. Labor force participation should show further improvement over the coming year amid ample opportunities, easing constraints and rising financial needs. The increasing number of available workers along with robust hiring needs as the economy continues to expand at an above-trend pace should lead job growth to recover toward the end of next year. But there is no silver bullet for upping the labor supply, which will likely keep the rebound in participation gradual and the labor market quickly moving in on what the FOMC can only consider to be full employment.

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://www.wellsfargo.com/economicsemail)

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at [wellsfargo.com/economicoutlook](http://wellsfargo.com/economicoutlook)

Via The Bloomberg Professional Services at WFRE

And for those with permission at [research.wellsfargosecurities.com](http://research.wellsfargosecurities.com)

**Economics Group**

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Mark Vitner	Senior Economist	704-410-3277	Mark.Vitner@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	704-410-1437	Sara.Cotsakis@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

## Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE