Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Sarah House, Economist
sarah.house@wellsfargo.com • (704) 410-3282

Jobs: Solid Gain Supports Consumer and FOMC Move

November job gains of 178,000 and a three-month average of 176,000 provide solid support for a December Fed move. Wage increases have resulted in real wage gains and profit pressures in a low productivity world.

Job Gains Support FOMC Move

Nonfarm payrolls rose 178,000 in November. Job growth has averaged 176,000 over the past three months, with private sector payrolls up an average of 165,000 amid strength in the service sector, especially professional & business services (top chart). These gains are consistent with solid consumer spending and continued economic growth. Aggregate hours worked are up a healthy 2.7 percent annualized over the past three months.

The unemployment rate declined to 4.6 percent as the labor force participation rate once again slid. On balance, these results remain within the FOMC's range for full employment and indicate the labor market continues to tighten. The U-6 unemployment rate, a focus of President-elect Donald Trump, declined to 9.3 percent, marking a new cycle low.

In contrast, manufacturing payrolls were down 4,000 in November. The distinction between nondurables (up over the past year) and durables (down over the same period) persists. The factory sector continues to face the usual headwinds, including a strong dollar and sluggish growth abroad, but recent data suggest manufacturing has begun to firm, which should bode well for payrolls in this sector going forward. Construction jobs rose 19,000 in November and these gains are consistent with improvement in housing and nonresidential construction.

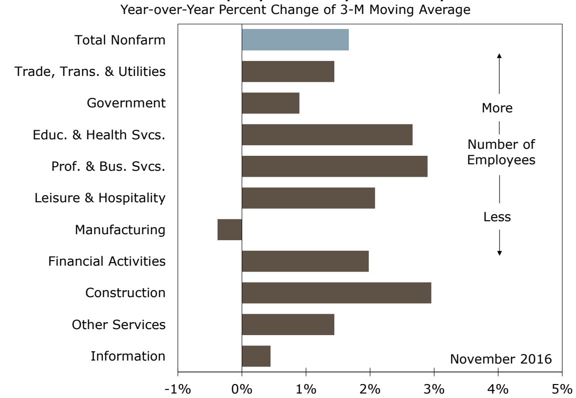
Wage Growth Soft in November, Real Wages Up Over the Year

Average hourly earnings disappointed in November, declining 0.1 percent. Earnings are still up 2.5 percent over the past year and add to the evidence of a tightening labor market. Wage gains remain widespread across industries (middle chart). Over the past year, wage gains of 2.5 percent exceeded the rise in the Consumer Price Index of 1.6 percent, thereby resulting in real wage gains and providing support for improved consumer spending. Wages in sectors such as leisure & hospitality, information and construction have recorded strong gains over the past year.

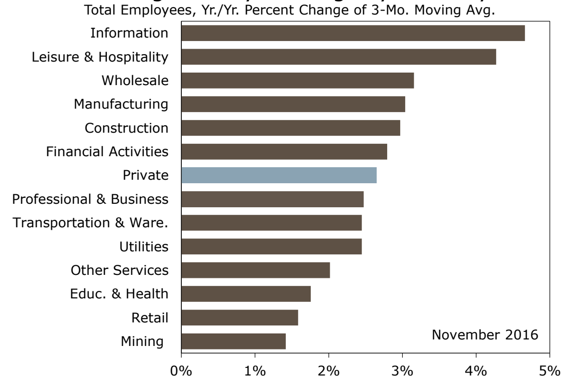
Unit Labor Costs and Profits as the Business Cycle Ages

Rising labor compensation in the face of small gains in labor productivity gives rise to higher unit labor costs and profit pressures in an aging business cycle. A tighter labor market should prompt a continued strengthening in wage growth now that we are in the range of full employment, and this is what we have witnessed over the past year. Given the absence of a pickup in productivity growth, rising unit labor costs will force companies to either accept lower profit margins or pass the costs onto consumers through higher prices. A combination of the two is typical, with profit growth slowing and inflation rising when the economy reached full employment in previous cycles (bottom chart). A third door remains open if the economy can pick up the pace of growth—we shall see.

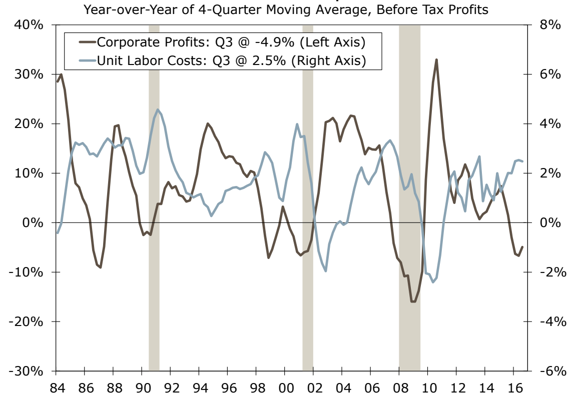
U.S. Employment by Industry
Year-over-Year Percent Change of 3-M Moving Average



Average Hourly Earnings by Industry
Total Employees, Yr./Yr. Percent Change of 3-Mo. Moving Avg.



Unit Labor Costs & Corporate Profits
Year-over-Year of 4-Quarter Moving Average, Before Tax Profits



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

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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