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TD Economics

Data Release: Americans get a healthy pay raise in December

- Non-farm payrolls increased by 156k in December, or just shy of the 175k expected by the street. Revisions to the previous two months' payrolls added 19k positions.

- Private payrolls rose by 144k, some 26k below consensus. Private services hiring was led by health care & education (+70k), leisure & hospitality (+24k) and transport (+16k). Manufacturing (+17k) had a great month, but the reminder of the goods-producing industries pulled back on the job front with construction and mining down 3k and 2k, respectively. Government had a great month (+12k) on strength in both federal and local payrolls.

- The unemployment rate ticked up by 0.1 percentage points to 4.7% as the gain in employment was not enough to offset the number of people re-entering the labor force. The additional influx has lifted the participation rate up by 0.1pp to 62.7% on the month, keeping it near a level where it's been oscillating around for over three years. Despite the rise in the headline rate, other underemployment measures were mostly lower, with the broadest measure (U-6) down 0.1pp to 9.2% - its lowest level since April 2008.

- Average hourly earnings rose by 0.4% during the month, surpassing expectations, with the year-over-year wage growth accelerating from 2.5% to 2.9% in December.

- Average weekly hours increased were unchanged at 34.3.

Key Implications

- This morning's report is healthy one all things considered. When including the positive revisions, job growth matched expectations and remains robust given the maturity of the business cycle. December marks the 75th consecutive month of gains and hiring was relatively widespread with the diffusion index ticking higher in December.

- Notably, manufacturing had a terrific month adding the most jobs since January 2016 and ending a four month losing streak. The pickup corroborates the recent data on activity in the sector which may be getting a near-term boost from the anticipated policies of the incoming administration that has focused on boosting domestic manufacturing – a task that will be made difficult by the recent USD rally.

- Despite the tick-up in the headline unemployment, the rate remains very low. Moreover, most other measures pointed to further absorption of slack in the labor market. We expect this trend to continue in the coming months and increasingly manifest on wage pressures.

- Wage pressures were definitely front and center in this report, with American workers getting a healthy pay raise in December. Wage inflation, at 2.9% y/y, is now growing at its fastest pace since May 2009, a trend that will increasingly give the Fed hawks ammunition to argue for a faster pace of rate hikes.

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