U6 Fix

A “Softish” December

GORDON GRAY | JANUARY 6, 2023

The December jobs report came in close to expectations, with strong employment gains and tempered earnings growth. By the lights of the U3, U6, and other data, the labor market remains incredibly tight, but decelerations in earnings growth will give comfort to the Federal Reserve and market observers.

The Bureau of Labor Statistics (BLS) reported that employers added 223,000 to their payrolls in December. The private sector added 220,000 workers to its rolls last month, while government employment gained 3,000. Goods-producing industries added 40,000 employees. Construction and manufacturing saw payrolls grow by 28,000 and 8,000 workers, respectively. Within manufacturing, employment in nondurable goods industries grew by 24,000, while nondurable manufacturing employment fell by 16,000 workers. The service sector gained 180,000 workers, but some industries saw net declines. Education and health services and leisure and hospitality industries saw gains of 74,400 and 67,000 workers, respectively. Professional and business services industries saw a net decline of 6,000 workers, driven by a decline in temporary workers of 35,000. Information industries also saw a net employment decline of 5,000 workers. Employment gains in October and November were revised down by a combined 28,000 workers. As of this print, the labor market has recovered more than 1.2 million more jobs than the 22 million jobs lost in March and April of 2020.

BLS reported that the unemployment rate in November declined to 3.5 percent, which matches the lowest measure in the post-pandemic period. It is important to note that the seasonal factors for the household survey were revised such that November’s U-3 was 3.5, making the U-3 decline larger than otherwise. The household survey was largely consistent with the payroll survey, reflecting declines in the unemployed population of 278,000 and gains in the employment population of 717,000. The labor force gained 439,000 workers, bringing the labor force participation rate back to 62.3 percent from an upwardly revised 62.2 percent.

The unemployment rate fell for all but one education level; it fell for two races, rose for one, and remained constant for one. By race, it fell most for Whites by 0.3 points. It fell for Asians by 0.2 points. It rose for Hispanics by 0.1 points and remained constant for Blacks. By education, it rose for those with less than a high school diploma by 0.6 points. For high school graduates and those with some college or associate degree, it fell by 0.3 points. Those with a bachelor’s degree or higher saw a 0.1-point drop.

Average hourly earnings increased by 15 cents, reflecting a 4.6 percent yearly gain, and a deceleration in the monthly rate of change to 0.27 percent, reflecting significant downward revisions to hourly earnings data in the prior two months. Average hourly earnings for production and non-supervisory workers increased by 6 cents, for a 5.0 percent gain over the year.

Data junkies, here’s your fix: The December U-6 (the broadest measure of unemployment) fell to 6.7 percent, the lowest ever recorded largely driven by a decline in regular unemployment rate.