Economic Update

December 6, 2024

Job Growth Rebounds in November As Expected, With Unemployment Rate Up Slightly

- **Job growth bounced back to 227,000 in November, after a weak October due to hurricanes and the Boeing strike.**
- **There were upward revisions to job growth in September and October, with employment gains roughly equal with labor force growth.**
- **The unemployment rate rose slightly in November to 4.2%, but has been in a narrow range this year consistent with a solid labor market.**
- **Wage growth was solid and accelerated. This is good from a consumer spending perspective, but a concern from an inflation perspective.**

Job growth rebounded to 227,000 in November, according to a survey of employers from the Bureau of Labor Statistics. Job growth was 36,000 in October (revised higher from 12,000), weighed down by Hurricanes Helene and Milton and the Boeing machinists strike. With the strike settled and rehiring after the storms, job growth was much stronger than in October. Job growth in September was revised higher to a very strong 255,000, from 223,000. In the three months through November job growth has averaged 173,000. This is slower than job growth in 2023, but is roughly consistent with underlying growth in the number of people available for work.

The unemployment rate increased slightly to 4.2% in November, from 4.1% in September and October. The unemployment rate has been between 4.1% and 4.3% for the past six months. Although this is up from a decades-long low of 3.4% in 2023, it is still indicative for a very good labor market, and the Federal Reserve views it as consistent with their mandate of "maximum employment."

Employment in a survey of households (different from the survey of employers) fell by 355,000 in November; the household number is more volatile than the employer number. The labor force—the number of adults working or looking for work—contracted by 355,000. And the labor force participation rate, the share of adults in the labor force, fell to 62.5% in November from 62.6% in October and 62.7% in September. The labor force participation rate has been between 62.5% and 62.8% every month since February 2023. This is well below the 63%+ rate before the pandemic, and the labor force is now structurally tighter than it was pre-pandemic.

Average hourly earnings increased a strong 0.4% in November from October, the same pace as in October. On a year-ago basis average wage growth was 4.0% in November, unchanged from October, but up from 3.6% in July, and the fastest pace since January. The average workweek increased by one-tenth of an hour in October to 34.3. With more jobs, higher wages, and a longer workweek, aggregate weekly pay rose by 0.8% in

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November from October, well above the pace of inflation. This is good news for near-term consumer spending.

The private sector added 194,000 jobs in November, while government employment rose by 33,000. Goods-producing industries added 34,000 jobs in November, including an increase in manufacturing of 22,000 as the striking Boeing workers returned to the job; manufacturing employment fell by 48,000 in October. Construction employment rose by 10,000. Private-services providing industries added 160,000 jobs in November, including gains of 79,000 in education/health services, 53,000 in leisure/hospitality services, 26,000 in professional/business services, and 17,000 in financial activities. Retail employment fell by a large 28,000 over the month. The diffusion index, which measures the breadth of private-sector job growth, was a solid 56.2 in November, up from 53.2 in October; a reading of above 50 means more private-sector industries added jobs than lost jobs.

The November jobs report was a strong one. Job growth rebounded after the hurricanes and the Boeing strike were drags in October, and there were also noticeable upward revisions to job growth in September and October. The three-month moving average of job growth, which smooths out some of the volatility, was solid at around 170,000. The unemployment rate did tick up slightly and has moved higher from 2023, but remains historically low and has been in a narrow range for most of this year. Overall the November jobs report indicates a solid labor market that is at the Fed's definition of maximum employment.

One concern for the central bank may be wage growth, which has picked up over the past few months. With inflation already above the Fed's 2% objective, and slightly higher inflation over the past couple of months, the potential for inflationary pressures coming from the labor market is something to watch. With economic fundamentals, including the labor market, still solid, the Federal Open Market Committee may slow the pace of cuts in the federal funds rate. PNC expects a 25 basis point cut in the fed funds rate when the FOMC next meets on December 18, but the pace of cuts in 2025 will depend on incoming data on inflation and the labor market.

The fed funds futures market is pricing in an 85% probability of a 25 basis point cut in the fed funds rate on December 18, up from 71% yesterday. Expectations are for slightly more easing in 2025 today compared to yesterday.

The S&P 500 opened slightly higher this morning and is up 0.2% so far today. The yield on the 10-year Treasury note dipped but then rose, and is now close to where it stood before the release, at 4.17%. The yield on the 3-month Treasury bill is down a few basis points to 4.42%. The price of a barrel of West Texas Intermediate crude oil is down 1.2% today to $67.50. The dollar is stronger by around 0.3% against a basket of currencies.

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