RBC Economics & Thought Leadership

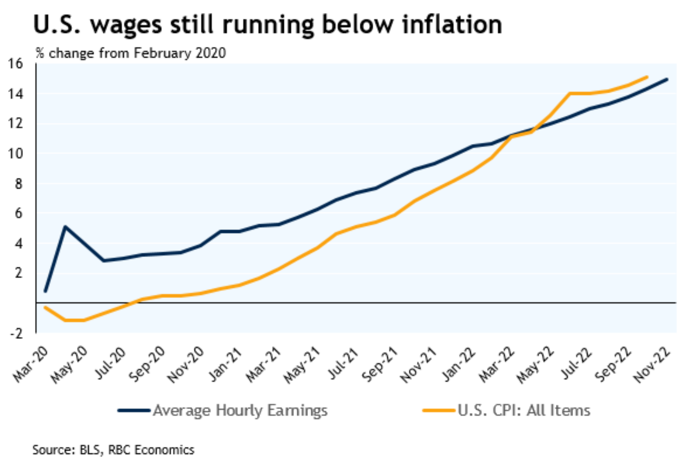
Daily Economic Update

December 2, 2022

U.S. job growth showed unexpected momentum in November

- Payroll employment added 263k jobs in November
- The unemployment rate held steady at 3.7%, still exceptionally low
- The Federal Reserve is expected to continue further interest rate hikes in the face of tight labour market conditions and decades high inflation; we expect a 50 bp hike in December followed by additional tightening into 2023

Another month of robust job gains were reported in November, with 263K new job postings, slightly below October's revised 284K, and above consensus expectations of 200K. Notable gains were reported in hospitality and leisure (+88K), as businesses struggle to re-staff the 900,000 positions cut during 2020 pandemic lockdowns. Education and health services (+82K) again showed notable strength, partially offset by declines in retail and transportation and warehousing (excluding air transportation). Widely publicized layoffs in the tech sector did not show up in the data, indicative that those individuals who were laid off likely secured new jobs in the sector. The unemployment rate remained unchanged from October's 3.7%, still exceptionally low. Today's U.S. jobs report indicates that labour markets remain exceedingly tight, and labour market momentum is likely stronger than anticipated. Still, there are some early signs of softness – retail employment slowed for a third straight month, signaling higher interest rates are impacting demand for goods.



Data Summary:

	Sep-22	Oct-22	Nov-22	Nov-22
	m/m change, thousands			*12mth avg*
Payroll employment	269	284	263	408
Private	255	248	221	383
Public	14	36	42	25
Hourly wages (m/m %)	0.4	0.5	0.6	5.1 (y/y %)
		%		*y/y change*
Unemployment rate	3.5	3.7	3.7	-0.5
U6	6.7	6.8	6.7	-1.0
Participation rate	62.3	62.2	62.1	0.2
25-54	82.7	82.5	0.0	-81.9

Source: Haver, RBC Economics

Demand for workers is still outpacing available supply, especially in the hospitality sector. And wage growth edged higher in November after showing signs of slowing in recent months. Average hourly earnings rose 0.6% month-over-month, from a 0.5% (revised) increase in October. Nevertheless, the 5.1% increase in wages from a year ago is still running below the annual rate of inflation.

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Labour markets remain exceptionally tight, and Federal Reserve officials are still more focused on containing inflation than preventing increases in the unemployment rate. Wage growth has been accelerating but is still running behind the rate of inflation. And (very) early signs that broader inflation pressures may have peaked suggest that interest rates are close to levels that are 'restrictive' enough to bring inflation back to target rates. Indeed, we anticipate the U.S. economy will slip into a mild recession in 2023, as the lagged impact of inflation and higher interest rates takes hold, at which point the unemployment rate will begin to edge more significantly higher. With this in mind, the U.S. Fed looks likely to slow the pace of interest rate increases in December (we expect a 50 bp hike at the next policy meeting) on the way to hitting a terminal rate of 4.75% to 5.00% in early 2023.

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