Daily Economic Update

January 1, 2023

U.S. employment ended 2022 with above-trend job growth

- Payrolls added 223k jobs in December; the unemployment rate edged down to 3.5%
- Wage growth continue to trend lower since peaking in March
- Strong spending and hiring momentum calls for further interest rate hikes from the Federal Reserve – we expect another 50 bp increase in the fed funds target by the end of Q1

Payroll employment rose another outsized 223k in December – bringing the annual gain in 2022 to just over 4.5 million as labour demand surged back after the economic impact of the pandemic eased. The December increase was most notable in sectors like leisure and hospitality (+67k), health care (+55k) and construction (+28k). Overall conditions remained overheated, evident by another tick lower in the unemployment rate, back to 3.5% in December that's a multi-decade low. Much of the annual increase in employment came during the beginning of the year when sectors quickly recovered pandemic losses. Since then, job growth has been limited by lack of remaining available workers more than a shortfall in hiring demand. That's most true in close contact low wage sectors including leisure and hospitality, where despite recent improvements the job count is still almost a million short of pre-pandemic levels. Wage growth has been trending lower since March but at 4.6% in December was still well above rates pre-pandemic.

Strong residual momentum in hiring demand and elevated wage gains have drawn concerns for the Federal Reserve that tight labour markets will keep too much upward pressure on inflation. Despite improvements in recent CPI reports that showed slowing on top of narrowing in price pressures in the U.S., the Fed will need to see more to be convinced that inflation will sustainably ease back towards the 2% target rate. We think another 50 bp hike rate hikes is likely in Q1 – adding to the 425 bp worth of increases to the fed funds target range on a cumulative basis in 2022. The impact of those interest rate increases is still working its way through the economy and will slow demand for spending and investment in 2023. Real consumer spending on goods has essentially flat lined and leading indicators like the ISM manufacturing report have softened substantially.

Labour market indicators often lag the economic cycle and that might be especially true this time around, with currently tight conditions making businesses hesitant to lay off workers. That should keep a floor under near-term job losses. Still, we continue to expect higher interest rates and inflation to push the economy into a 'moderate' recession in 2023 and for the une mployment rate to ultimately move higher.

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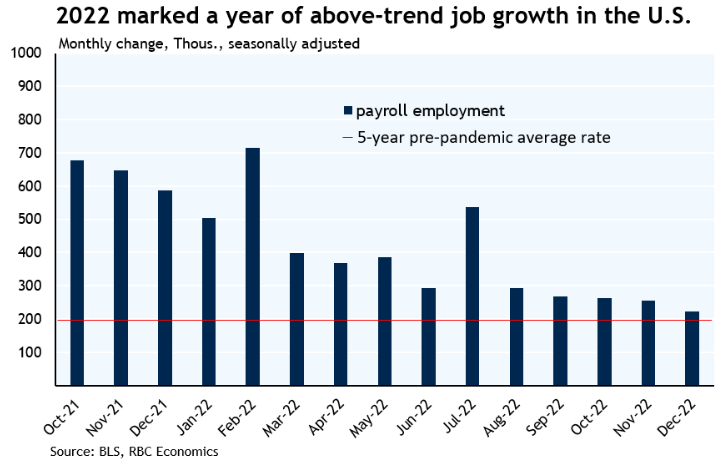
Data Summary:

	Oct-22	Nov-22	Dec-22	Dec-22
	m/m change, thousands			*12mth avg*
Payroll employment	263	256	223	375
Private	219	202	220	350
Public	44	54	3	25
Hourly wages (m/m %)	0.3	0.4	0.3	4.6 (y/y %)
		%		*y/y change*
Unemployment rate	3.7	3.6	3.5	-0.4
U6	6.7	6.7	6.5	-0.8
Participation rate	62.2	62.2	62.3	0.3

Source: Haver, RBC Economics Research



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