High Frequency Economics®
Daily Data Analysis and Assessment of the Global Economy

Weekly Notes on the **United States**

December 2, 2019. Worldwide Edition

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Payrolls Primer: Look For Above-Trend Headline

While the pace of job gains has moderated so far this year, it remains healthy at 167K per month, on average, compared to 223K in 2018. *For the November report, due Friday, we forecast an above-trend 180K rise following a below-trend 128K in October.* As we discuss below, the October headline was held down by one-time factors that likely reversed in November. *Alongside a strong increase in jobs, we expect the unemployment rate to remain steady, and average hourly earnings to post another trend-like gain. So far, at least, the labor market remains resilient, despite growth and trade uncertainties.*

Employment growth in October was held down by drags from the GM strike and an unwinding of hiring for the decennial census. Without the 42K drop related to motor vehicle and parts manufacturing and a 20K decline in census workers, payrolls actually rose an above-trend 190K in October. Meanwhile, the two prior months were revised upward by a net 95K.

We expect goods-producing payrolls to rebound in the November report: Manufacturing jobs—which declined over the previous two months—likely rebounded in November. We expect a gain in service-producing jobs as well, but there is some downside risk to our estimate related to transportation and warehousing jobs, specifically the hiring of couriers for holiday deliveries. Given the late Thanksgiving holiday this year, and the resulting short holiday shopping period, job gains in this component may be held down by seasonal adjustment issues. However, the net impact should be modest. *In sum, look for private payrolls to rise 170K in November, better than both 131K in October and the 152K year-to-date average.*

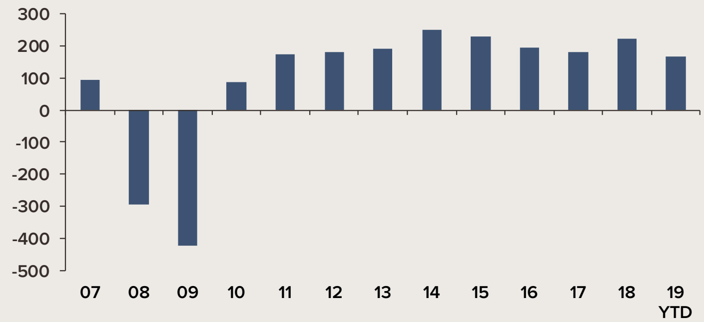
We suspect the moderation in the underlying trend in payrolls this year is mostly a function of the labor market moving closer to full employment rather than any significant weakening in the economy. In Q1, payrolls rose an average 174K per month, followed by gains of 152K in Q2 and 188K in Q3. Year to date, the average monthly gain is 167K, after 223K in 2018 and 179K in 2017. Despite the slowdown in payrolls, the number of jobs being created continues to outpace new entrants to the labor force. *As long as this continues, the unemployment rate, currently at a 50-year low of 3.6%—3.56% before rounding—will continue to decline.* We see the unemployment rate holding steady at 3.6% in November, compared to 3.5% in September and 3.8% in October 2018. The jobless rate continues to run significantly below Fed officials' estimate of the long-run unemployment rate. In the September Summary of Economic Projections, the median projection was 4.2%.

Key Data Spotlight: December 2

	Period	Previous (-2)	Previous (-1)	New Data Cons	New Data HFE
Markit Manufacturing PMI	Nov	51.3	52.2	52.2	
Manufacturing ISM Index	Nov	47.8	48.3	49.2	49.5
Construction Spending (%m/m)	Oct	-0.3	0.5	0.4	0.2

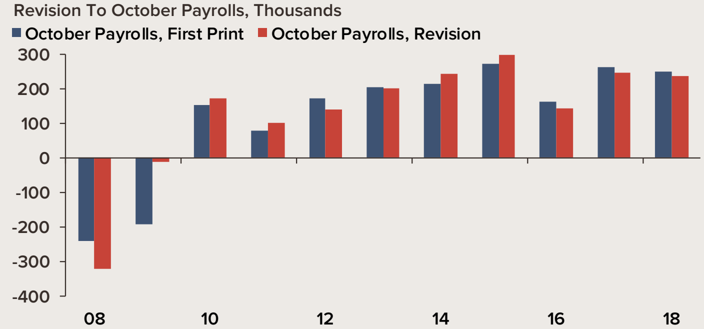
Still-Healthy Trend In Payrolls Despite Slowdown This Year

Average Annual Change In Nonfarm Payrolls (Thousands Per Month)



October Revisions To Payrolls Are Neutral Overall

Revision To October Payrolls, Thousands

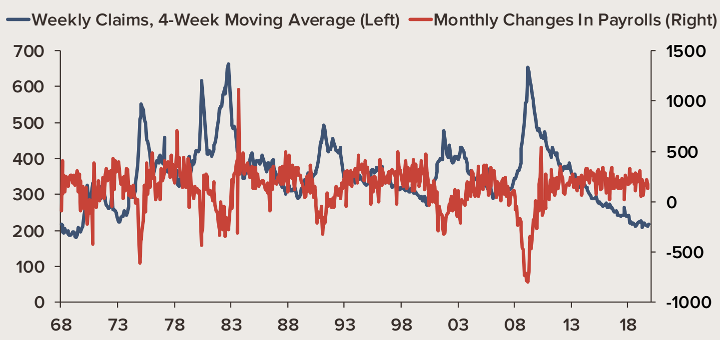


We are unlikely to get any surprises in Friday's jobs report in the form of backward-looking revisions to October results. Revisions to prior payrolls gains in October have had a neutral impact overall: Over the past 10 years, October payrolls have been revised higher five times and lower five times.

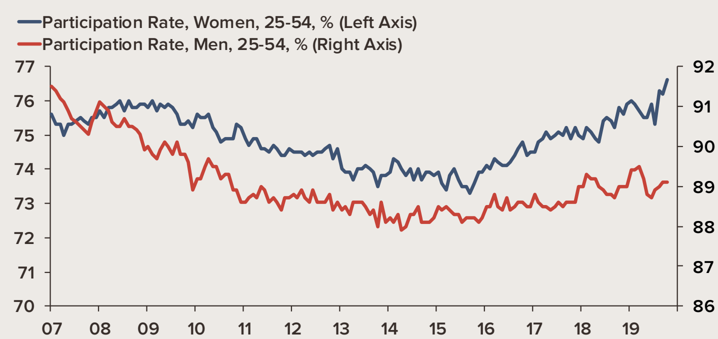
Jobless Claims Signal Moderation, But Not Weakening

We continue to monitor the weekly jobless claims figures for signals of any large changes in the underlying employment trend. Initial claims had trended up in recent weeks, rising to a five-month high of 227K in the week ended November 16, but this was likely related to seasonal adjustment issues around the Veterans Day holiday. The sharp 15K drop to 213K in the latest week—November 23—is more in line with the 217K average so far this year. The latest four-week average of 220K is not too much higher than 214K in Q3 and 217K in Q2.

Claims Signal No Change In Underlying Labor Market Trend



Participation Rates, Men & Women, Prime Age Cohort, %



The Q1 average was 220K. *Overall, the claims numbers signal ongoing strength in the labor market, albeit at a more moderate pace.* As our first chart above shows, the four-week average for claims exhibits a strong inverse relationship with swings in monthly payrolls; the recent data are not signaling any material changes.

Despite the slowing in payrolls so far this year, the underlying trend remains strong. *Barring any substantial changes to the economic outlook related to trade issues or geopolitical risks, we expect to see payrolls gains average above 100K over coming months. Given the labor market participation rate—discussed below—and current demographic trends, that pace should be sufficient to drive further declines in the unemployment rate.*

Participation Rate A Plus; Wages Stalled

The participation rate has been a bright spot in the labor market recently. It rose to 63.3% in October, the highest reading since August 2013. The participation rate for the "prime age" 25-to-54 cohort is showing some improvement: The average so far in 2019 is 82.4%, up from 82.0% in 2018 and 81.7% in 2017. The rise comes thanks to an increase in the participation rate of "prime age" women. For this group, the October participation rate was 76.6%, compared to a year-to-date average of 75.9% and up from 75.3% in 2018. The current rate is 1.1 percentage points higher than at the start of the recession and 0.7 percentage points higher than at the end of the recession. For men, the 89.1% October reading matched the year-to-date average and was little changed from an 89.0% average in 2018. The participation rate for "prime age" working men remains 1.8 percentage points below where it was in December 2007 and 0.9 percentage points lower than in June 2009. *Overall, a healthy labor market continues to draw people back into the labor force.*

Wages are continuing to strengthen gradually, but year-over-year gains in average hourly earnings have moderated recently. In February, average hourly earnings rose 3.4% on a year-over-year basis, the fastest pace since April 2009. Subsequently, however, the rate has slipped: Over the last two months, the 12-month change has dropped to a still-decent 3.0%. *We anticipate a similar increase in November.*

Improved Growth Outlook For Q4?

Last week's data on trade, inventories, orders and consumption altered the outlook for Q4 GDP growth quite a bit. As of Friday, the Atlanta Fed's GDPNow estimate for Q4 growth was 1.7%. As we have been pointing out, these are early estimates. The Atlanta Fed's initial estimate for Q4 growth was 1.5% but then dipped to 0.3% in mid-November. *We estimate growth in the fourth quarter coming in around 1.8%, slightly slower than the third quarter's 2.1% pace.*

The advance trade report revealed a sharp narrowing of the goods balance to start the quarter, though much of the improvement was owing to a sharp drop in imports; exports fell by a smaller amount. As a result, we see some upside to our estimate for net exports. Also of note was the strength in durable goods orders in October. Orders for nondefense capital goods ex-aircraft rose solidly, and the shipments component—which counts for GDP—was up 0.8%, pointing to a rebound in equipment spending in the current quarter after a big decline in Q3.

Again, these are early readings. As HFE's Chief Economist Carl Weinberg writes today in his *Weekly Notes on China's Economy*, little real progress has been made toward the U.S.-China "Phase One" trade deal. *Uncertainty has the potential to weigh heavily on business investment and sentiment going forward.* The next tariff deadline is December 15; this would entail an additional 15% tariff on $160 billion worth of goods from China. *We have no way to predict whether the December 15 deadline will come and go—again—without a further increase in tariffs... no one does. At HFE, we do not see a deal happening before March at least, and Carl Weinberg actually predicts no deal before U.S. presidential elections in November.*

The Fed's Beige Book, published last week, was slightly more positive in its assessment of the U.S. economy. Activity was seen as expanding "modestly," slightly better than the "slight to modest" pace

Contribution To Third Q3 GDP Estimate From Revisions

	Advance Est	Second Est	Third Est	Adv To 2nd Difference
Real GDP	1.90	2.10	3.50	0.20
PCE	1.93	1.97	2.45	0.04
Durable goods	0.53	0.57	0.28	0.04
Nondurable goods	0.61	0.59	0.73	-0.02
Services	0.79	0.80	1.45	0.01
Nonresidential	-0.40	-0.36	0.35	0.04
Structures	-0.48	-0.37	-0.05	0.11
Equipment	-0.23	-0.22	0.21	0.01
Intellectual Property	0.30	0.24	0.19	-0.06
Residential	0.18	0.18	-0.10	0.00
Chg Inventories	-0.05	0.17	2.27	0.22
Net Exports	-0.08	-0.11	-1.91	-0.03
Federal	0.22	0.22	0.23	0.00
State and local	0.12	0.06	0.22	-0.06

HFE's Economic & Financial Forecasts

%ch From Previous Period, Annual Rate, Except Where Noted; ***Forecasts In Bold***

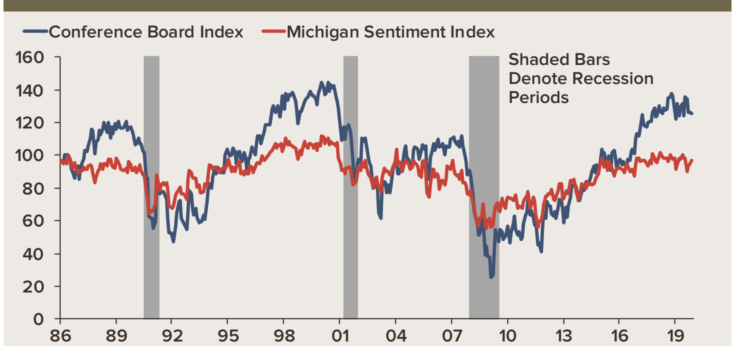
	2019				2020				Calendar Average			Q4/Q4		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2018	2019	2020
Real GDP	3.1	2.0	2.1	**1.8**	**1.5**	**2.0**	**2.0**	**2.0**	2.9	**2.3**	**1.8**	2.5	**2.2**	**1.9**
Final Sales	2.6	3.0	2.0	**1.8**	**1.8**	**2.0**	**2.0**	**2.0**	2.8	**2.1**	**1.9**	2.2	**2.3**	**1.9**
Domestic Final Sales	1.8	3.6	2.0	**2.1**	**2.1**	**2.0**	**2.0**	**2.0**	3.0	**2.3**	**2.2**	2.6	**2.4**	**2.1**
Net Exports (pct pt contr)	0.7	-0.7	-0.1	**-0.4**	**-0.4**	**-0.1**	**-0.1**	**-0.1**	-0.3	**-0.3**	**-0.3**	-0.4	**-0.1**	**-0.2**
Inventories (pct pt contr)	0.5	-0.9	0.2	**0.0**	**-0.3**	**0.0**	**0.0**	**0.0**	0.1	**0.2**	**-0.1**	0.3	**0.0**	**0.0**
Consumption	1.1	4.6	2.9	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	3.0	**2.6**	**2.4**	2.6	**2.6**	**2.0**
Business Fixed Investment	4.4	-1.0	-3.0	**1.8**	**3.1**	**3.1**	**3.1**	**3.4**	6.4	**2.3**	**1.9**	5.9	**0.6**	**3.2**
Structures	4.0	-11.1	-15.3	**-4.0**	**1.5**	**2.0**	**2.0**	**2.5**	4.1	**-4.4**	**-2.0**	2.6	**-6.0**	**2.0**
Equipment	-0.1	0.8	-3.8	**1.0**	**1.5**	**2.0**	**2.0**	**2.5**	6.8	**1.6**	**0.9**	5.0	**-0.5**	**2.0**
Intellectual Property	10.9	3.6	6.6	**6.0**	**6.0**	**5.0**	**5.0**	**5.0**	7.4	**7.8**	**5.4**	9.3	**6.4**	**5.2**
Residential Investment	-1.1	-2.9	5.1	**5.0**	**2.0**	**1.0**	**1.0**	**0.0**	-1.5	**-1.5**	**2.2**	-4.4	**1.4**	**1.0**
Exports	4.2	-5.7	0.7	**-1.0**	**-1.0**	**2.0**	**2.0**	**2.0**	3.0	**-0.2**	**0.0**	0.4	**-0.5**	**1.2**
Imports	-1.5	0.0	1.2	**1.7**	**2.0**	**2.5**	**2.5**	**2.5**	4.4	**1.6**	**1.9**	3.2	**0.4**	**2.4**
Government	2.9	4.8	2.0	**2.0**	**1.8**	**1.6**	**1.6**	**1.6**	1.7	**2.3**	**1.9**	1.5	**2.8**	**1.7**
Inventories (ch $B annual rate)	116	69	80	**82**	**70**	**72**	**74**	**76**	48	**87**	**73**	93	**82**	**76**
CPI	0.9	2.9	1.8	**2.0**	**2.3**	**2.4**	**2.5**	**2.5**	2.4	**1.8**	**2.3**	2.2	**1.9**	**2.4**
Core CPI	2.3	1.8	3.0	**2.1**	**2.3**	**2.4**	**2.5**	**2.5**	2.1	**2.2**	**2.4**	2.2	**2.3**	**2.4**
Core PCE Prices	1.1	1.9	2.1	**1.9**	**2.0**	**2.1**	**2.1**	**2.1**	1.9	**1.7**	**2.0**	1.9	**1.7**	**2.1**
Unemployment (%, level)	3.9	3.6	3.6	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	3.9	**3.7**	**3.5**	3.8	**3.5**	**3.5**
Federal Budget Balance ($B, FY)									-779	-984	**-1050**			
% Of GDP									-3.8	**-4.6**	**-4.8**			
												End Of Year		
Fed Funds Target (%, EOP)	2.38	2.38	1.88	**1.63**	**1.38**	**1.38**	**1.38**	**1.38**	1.8	**2.2**	**1.4**	2.38	**1.63**	**1.38**
10-Year Treasury (%, EOP)	2.4	2.0	1.7	**1.8**	**1.8**	**1.9**	**2.0**	**2.1**	2.8	**2.1**	**1.9**	2.7	**1.8**	**2.1**
30-Year Treasury (%, EOP)	2.8	2.5	2.1	**2.3**	**2.2**	**2.3**	**2.4**	**2.5**	3.0	**2.5**	**2.3**	3.0	**2.3**	**2.5**
S&P 500 (level, EOP)	2834	2942	2977	**2950**	**2863**	**2825**	**2788**	**2750**	2716	**2864**	**2825**	2507	**2950**	**2750**

seen in the prior report. *In our view, the economy is set to continue to grow at a moderate pace, keeping the current record-long expansion going. A strong job market and low interest rates will continue to support overall growth, though the manufacturing sector will likely continue to suffer the effects of trade tensions.*

Consumer Still Resilient Despite Spending Setback?

Last week's data on spending revealed a disappointing start to the fourth quarter. Real spending edged up just 0.1% on the month for a year-over-year gain of 2.3%. The consumer has provided critical support to growth in the face of global growth and trade issues. *Any slowing would certainly be of concern to the Fed as it assesses the economic outlook.*

Sentiment Measures Show Resilient Consumer



In spite of the October setback, we still see good momentum for spending over the holiday season. Consumers' views on their job and financial prospects drive spending. Recent confidence and sentiment readings have moderated a bit, in line with some slowing in growth and employment. Overall, though—as our bottom-left chart shows—confidence and sentiment readings remain at elevated levels. The fourth-straight decline in consumer confidence in November—to 125.5 from 126.1—leaves the index quite a bit below the 135.8 July reading, but not too far off the 128.2 average for the year to date. The average in 2018 was 130.1. The November Michigan sentiment reading of 96.8 was better than the year-to-date average of 95.7.

The strength in consumer expectations—combined with ongoing job gains and gradually rising wages—should be supportive of consumer spending going forward. All told, we forecast a gain of around 2.0% in real spending in the fourth quarter—a healthy increase, albeit slower than the third quarter's 2.9% pace and significantly slower than the 4.6% gain registered in the second quarter.

Core PCE Prices Moderated, As Expected

The 12-month change in the core PCE price index slipped to 1.6% in October—rounded from 1.59%—from 1.7% in September—rounded from 1.65%. The pace is below the reading of 1.9%—1.86%—in October as well as the 2.0%—1.95%—average in 2018. As our chart on page four shows, the softness in core PCE prices reflects some moderation in core services prices, as the trend in core goods prices

This Week In Brief

Note: "SS" prefix denotes Snapshot for these data.

Monday, December 2

- **Markit Manufacturing PMI (11r)/9:45 EST**
  Consensus: 52.2, after 52.2.
- **SS: Manufacturing ISM Index (11)/10:00 EST**
  Consensus: 49.2, after 48.3. HFE: 49.5. The regional surveys showed some weakness, on average, in November. We expect another sub-50 reading, which points to ongoing weakness in manufacturing.
- **SS: Construction (10)/10:00 EST**
  Consensus: 0.4%. HFE: 0.2%.

Tuesday, December 3

- **Light Vehicle Sales (11)**
  Consensus: 16.8M, after 16.6M. HFE: 16.9M. The sales rate likely rose close to the year-to-date pace of 16.9M, up from 16.5M in October but below the 17.1M average in 2018.

Wednesday, December 4

- **MBA Mortgage Applications (11/29)/7:00 EST**
- **SS: ADP Employment Report (11)/8:15 EST**
  Consensus: 140K. HFE: 150K. The ADP survey was 6K below the BLS reading in October.
- **Markit Services/Composite PMIs (11r)/9:45 EST**
  Consensus: 51.6.
- **SS: Non-Manufacturing ISM Survey (11)/10:00 EST**
  Consensus: 54.5, after 54.7. HFE: 54.5. The index was likely at a healthy above-50 level in November. The comparable Markit services PMI was weaker, at 51.6.

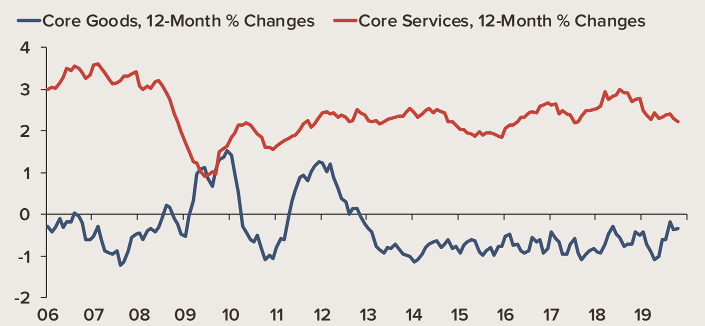
Thursday, December 5

- **SS: International Trade (10)/8:30 EST**
  Consensus: -\$48.7B, after -\$52.5B. HFE: -\$48.5B. The advance goods deficit narrowed sharply in November, to \$66.5B from \$70.5B.
- **SS: Initial Jobless Claims (11/30)/8:30 EST**
  Consensus: 215K. HFE: 215K. Claims fell back last week after hitting a five-month high the previous week. The latest 213K reading is below the four-week average of 220K and the year-to-date average of 217K.
- **Factory Orders (10)/10:00 EST**
  Consensus: Orders 0.3%. HFE: 0.3%. The durables part of the report already revealed a 0.6% gain.

This Week's Funding

Mon	Auction—3-month, 6-month bills
Tue	Announcement—4-week, 8-week bills (December 5)
Thurs	Announcement—3-month, 6-month bills (December 9)
	Announcement—3-year notes (December 9)
	Announcement—10-year notes (December 10)
	Announcement—30-year bonds (December 12)
	Auction—4-week, 8-week bills
	Auction—1-year bills

Core PCE Services Prices Moderating; Goods Already Weak



continues to be weak, though slightly less so in recent months. In terms of Fed policy, officials continue to expect inflation to run close to the 2% target. *However, given concern about low inflation expectations, Fed officials would likely be comfortable seeing inflation rise above the 2% goal for a while to boost expectations.*

Other Data To Watch This Week

We have highlighted the November jobs report in our *Notes* today, but there are other important releases coming this week, including both ISM indexes for November. *We forecast a 49.5 result for manufacturing, which would mark a fourth consecutive below-50 reading. While the index is weak, there is no reason to expect further deterioration.* We expect the services index to remain firmly above 50. In Thursday's report, look for the trade deficit to narrow, in line with the advance estimate.

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This Week In Brief (Continued)

Friday, December 6

- **SS: Employment (11)/8:30 EST**
  Consensus: Payrolls 188K, after 128K, unemployment 3.6%, after 3.6%, hourly earnings 0.3%, workweek 34.4 hours, after 34.4 hours. HFE: 180K, 3.6%, 0.3%, 34.4 hours. We expect a pick-up in the pace of payrolls gains in November after a below-trend October result, which was restrained by the GM strike and an unwinding of census hiring. Our 180K estimate compares to the year-to-date average of 167K. The unemployment rate should be steady at 3.6%. Earnings likely rose 0.3% on the month for a steady 3.0% year-over-year pace.
- **SS: University of Michigan Sentiment (12p)/10:00 EST**
  Consensus: 97.0, after 96.8. HFE: 97.0. The preliminary December Michigan sentiment index should be little-changed from November and slightly better than the year-to-date average of 95.7.
- **Wholesale Inventories (10r)/10:00 EST**
  Consensus: 0.2%. HFE: 0.2%.
- **Consumer Credit (10)/15:00 EST**
  Consensus: \$16B. HFE: \$16B.