

Economic Analysis

Solid Jobs Data Puts December Liftoff in Sight

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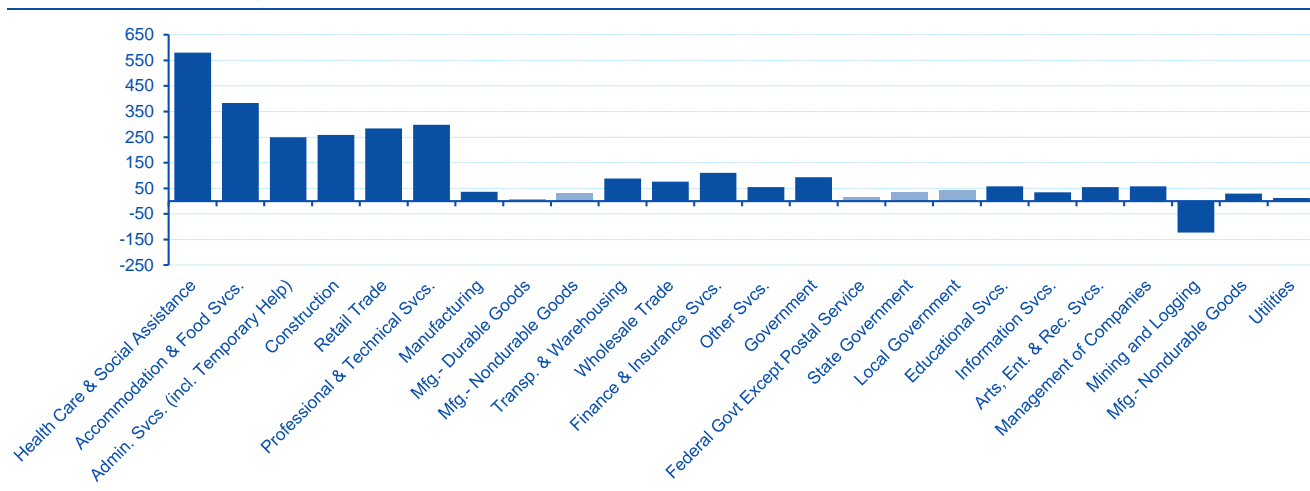
- **November payroll growth increased 211K, following an upward revision to October**
- **Wage growth, up 2.3% YoY, and labor force participation rate, 62.5%, remain subdued**
- **Job growth pushes up implied probability for December rate hike to 79.1%**

November employment, combined with a strong October showing, suggests full steam ahead for a rate hike in December. Nonfarm payrolls came in well above consensus expectations, up 211K, following a substantial upward revision to the already impressive October figures, which rose from 271K to 298K. This promising report comes just a day after Federal Reserve Chair Yellen stated before Congress’s Joint Economic Committee that the addition of just 100,000 jobs per month would be sufficient to cover new entrants to the workforce.

Down from the monumental increase of 304K seen in October, private payrolls rose 197K in November, led by the construction industry, up 46K, with strong employment growth of 215K from January through November. Jobs also showed gains in leisure and hospitality (39K), professional and technical services (27K) and health care (32K). Retail trade also showed a healthy gain of 31K after a rise of 41K in October, indicating that retailers continue to gear up for heavy business during the holiday season. Both mining (-11K) and manufacturing (-1K) contracted in November. Continued weakness in these sectors indicates the persistence of slow global demand and low oil prices.

The unemployment rate held at 5.0% while the labor force participation rate changed little at 62.5%. One soft spot in November’s report is that earnings figures remain subdued, up 0.2% MoM and 2.3% YoY, after finally reaching the Fed’s goal of 2.5% in October. Also concerning is an increase in the number of involuntary part-time workers, up 319K in November after declining the previous two months.

Chart 1
12-Month Nonfarm Payroll Growth (SA, Thousands)



Source: BLS & BBVA Research

Despite the soft spots in this employment report, solid job growth in November could provide the support the Fed needs to justify a December rate hike. Fed funds futures currently indicate a 79.1% probability of a rate hike at the December 15-16 FOMC meeting, up from 70% just a month ago. Judging from October and November's figures, strong gains in 4Q15 should end the year on a high note, with the possibility of even higher job growth in December given the increased confidence in the state of the economy that a rate hike would suggest.

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