January 7, 2022

US employment gain softer in December

- Payroll added another 199k jobs in December, weaker than consensus expectations.
- Unemployment rate dialed lower to 3.9%; participation rate held at 61.9%.
- Scope of impact from Omicron spread expected to be limited.

Payroll employment added 199k jobs in December ahead of a surge of Omicron cases, just half of the consensus expectation for a bigger 400k increase. The report still caps of a year of solid gains that averaged 537k per month, leaving employment in December 2.3%, or 3.6 million short of levels in pre-pandemic February 2020. Notable job gains occurred in leisure and hospitality (+53k) as well as professional and business services (+43k). The unemployment rate ticked lower again to 3.9% and the labour force participation rate held at 61.9%. That was also well-below pre-pandemic rates of +63%. Stagnant inflow into the labour force coupled with strong demand for workers suggests that the market was growing increasingly tight, just ahead of the latest wave of virus spread.

Indeed, widespread reports of acute labour shortages have led to significant pressure on wages. Private industries saw a 0.6% month over month increase in average hourly earnings, led by sectors including information, leisure and hospitality as well as education and healthcare. That puts the annual increase overall at just over 5% per year from pre-pandemic 2019 levels, much higher than the 3% average rate of increase over the 5 years ahead of the pandemic. The rapid spread of the Omicron variant could well impact labour markets in the near-term, with demand for high-contact services softening in some regions and more workers potentially off the job due to illness and self-isolation. But absent stricter containment measures, we expect the scope of the economic impact from the latest wave to be relatively limited. Tighter labour markets and firming inflation are expected to remain the main concerns for the Fed, and we now look for the first hike in the fed funds target range in Q2 of this year.

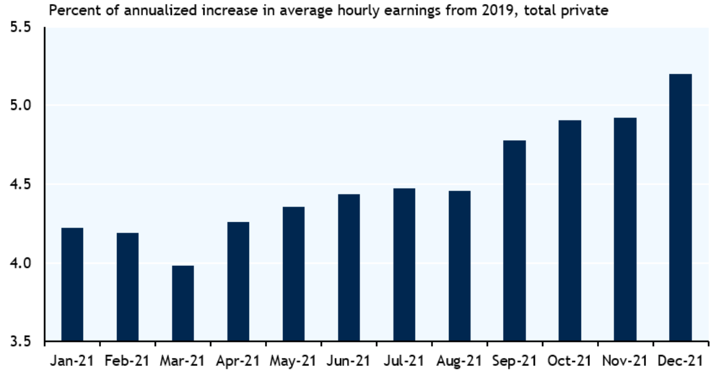
Data Summary:

	Oct-21	Nov-21	Dec-21	Dec-21
		m/m change, thousands		*12mth avg*
Payroll employment	648	249	199	537
Private	714	270	211	500
Public	-66	-21	-12	38
Hourly wages (m/m %)	0.6	0.4	0.6	4.7 (y/y %)
		%		*y/y change*
Unemployment rate	4.6	4.2	3.9	-2.8
U6	8.2	7.7	7.3	-4.4
Participation rate	61.7	61.9	61.9	0.4

Source: Haver, RBC Economics Research

Acute labour shortages add to wage pressure in the US

Percent of annualized increase in average hourly earnings from 2019, total private



Source: BLS, RBC Economics

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