Returning General Motors (GM) Workers Help Boost November Hiring

- We look for the pace of nonfarm hiring to rebound in November, with employers adding 190,000 jobs.
- November hiring should be boosted by returning GM workers. Striking GM workers showed up in the 42,000 decline in motor vehicle & parts employment in October. With a resolution in hand, impacted workers have returned to work and will be counted in the November establishment survey.
- Amid solid gains in the labor force, we look for the unemployment rate to remain steady at 3.6%. Modest productivity growth is helping to keep nominal wage growth below pre-recession rates. But, with the return of GM workers and a calendar quirk, we look for average hourly earnings to rise 0.3% over the month in November, which would keep the year-over-year pace steady at 3.0%
- The final FOMC meeting of the year is only a week away. Although the FOMC has signaled it will be on hold for at least its upcoming meeting, the November jobs report will provide policymakers and market participants alike the latest indication if a tight labor market will continue to bolster consumer spending, and thereby support the Fed’s view that monetary policy remains accommodative.

Payroll Forecast

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>November</td>
<td>August</td>
</tr>
<tr>
<td>Nonfarm Payrolls</td>
<td>196,000</td>
<td>219,000</td>
</tr>
<tr>
<td>Private Payrolls</td>
<td>200,000</td>
<td>163,000</td>
</tr>
<tr>
<td>Household Employment</td>
<td>221,000</td>
<td>590,000</td>
</tr>
<tr>
<td>Private Service Providing</td>
<td>171,000</td>
<td>159,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>27,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Government</td>
<td>(4,000)</td>
<td>56,000</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>U-6 Unemployment Rate</td>
<td>7.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Labor Force Participation Rate</td>
<td>62.9%</td>
<td>63.2%</td>
</tr>
<tr>
<td>Average Hourly Earnings, m/m</td>
<td>0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Average Hourly Earnings, yr/yr</td>
<td>3.3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Average Weekly Hours Worked</td>
<td>34.40</td>
<td>34.40</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Labor, Bloomberg LP and Wells Fargo Securities
Secondary Employment Indicators Remain Mixed, Though Risks Tilting to the Downside

**Initial Jobless Claims**
- Initial jobless claims remain low and consistent with a healthy labor market.
- Claims are a pretty good indication for near-term employment fluctuations. For the week of the BLS’ November payroll survey (week including 12th of the month) claims were up 9,000 compared to October. Claims were up 1,750 for the four weeks leading up to the survey weak compared to October.
- Layoffs remain low, and until we see a sustained upward turn in initial jobless claims, expansion in payrolls and the overall U.S. economy will most likely continue.

**PMI Readings of Employment**
- The ISM manuf. employment index remained in contractionary territory for the fourth consecutive month in November, as slowing global growth and unresolved trade tensions continue to take an increasing toll on the sector.
- The ISM non-manuf. employment index, however, saw a 1.8-point gain to 55.5, the highest level in five months.
- Squaring the diverging trends in survey evidence, our 190,000 forecast for November payrolls remains reasonable.

**Consumers’ Assessment**
- Consumers’ assessment of labor market conditions moderated in November.
- The labor market differential, or the difference between those who view jobs as “plentiful” versus “hard to get,” declined but remains elevated.
- Future job prospects remain in line with historical expectations.
- The tight labor market is manifesting itself in consumers’ income outlooks. Expectations for decreased income in the next six-months declined to its lowest level since 2000.

Nonfarm payroll growth averaged 188K in the third quarter, and we expect it to slow to an average of 143K in Q4. While we look for hiring to finish the year slower than last year, job gains should remain above what is estimated to be necessary to hold the unemployment rate steady.
Earnings & Hours Worked

There were five full weeks, compared to four, between the October and November payroll surveys, which traditionally results in stronger wage growth. These calendar considerations alongside the return of highly-paid GM workers should underpin earnings growth in November.

**Wage Pressure**

**Wage Growth**

Year-over-Year Percent Change

- Average Hourly Earnings: Q3 @ 3.1%
- ECI Wages & Salaries: Q3 @ 3.0%
- ECI Wages & Salaries, Ex-Incentive Occupations: Q3 @ 2.9%

**Hours Worked**

Average Weekly Hours Worked

Private Sector Workers

Average Hours Worked: Oct @ 34.4

Source: U.S. Department of Labor and Wells Fargo Securities
The labor market remains solid across most measures. The Fed continues to characterize U.S. labor market conditions as “strong,” with several FOMC participants noting the strength or improvement in labor force participation rates.

Resilience in hiring is evident in most private sector industries, with the exception of manufacturing, information and natural resources & mining.

Source: U.S. Department of Labor and Wells Fargo Securities
Year-over-Year Employment Growth: October 2019

Source: U.S. Department of Labor and Wells Fargo Securities

United States = 1.4%

- Less than 1.0%
- 1.1%-1.5%
- 1.6%-2.0%
- 2.1%-3.0%
- Greater than 3.0%

Source: U.S. Department of Labor and Wells Fargo Securities
Unemployment Rate by State: October 2019

Source: U.S. Department of Labor and Wells Fargo Securities

United States = 3.6%

- 2.0%-3.0%
- 3.1%-4.0%
- 4.1%-5.0%
- Greater than 5.0%

Economics

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