

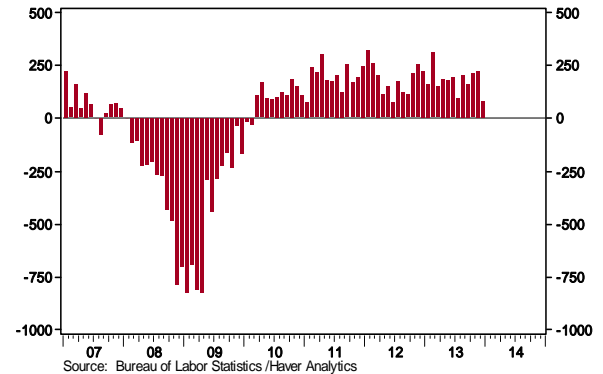
December Employment Report

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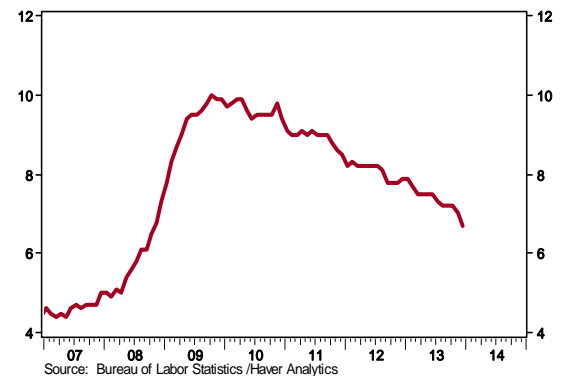
- Non-farm payrolls increased 74,000 in December, well below the consensus expected 197,000. Including upward revisions to prior months, nonfarm payrolls were up 112,000.
- Private sector payrolls increased 87,000 in December (+120,000 including revisions to prior months), lagging the consensus expected 200,000. The largest gains were for retail (+55,000) and temps (+40,000). The largest decline was for non-residential construction (-22,000). Government payrolls declined 13,000.
- The unemployment rate dropped to 6.7% (6.681% unrounded) from 7.0% (6.981% unrounded).
- Average weekly earnings – cash earnings, excluding benefits – increased 0.1% in December and are up 1.8% from a year ago.

Implications: The labor market surprised to the downside in December, with slower growth in payrolls, a decline in total hours worked, and only a small increase in wages that likely lagged inflation for the month. Payrolls increased 74,000 versus a consensus expected 197,000 (First Trust was forecasting a comparatively low 150,000). However, this does not mean the jobs recovery is over. Payroll growth was stronger than originally expected in August, September, October, and November, so getting one month to the downside does not make a new trend. In addition, the Labor Department says 273,000 workers were unemployed in December due to unusually severe weather in the survey week. This is the most for any December since 1977. For comparison, in the past ten years, on average, 138,000 workers have been out of work due to weather in December. These figures are from the civilian employment survey, not the payroll survey, but hint at a sharp rebound in job growth in January. Despite the weather issue, civilian employment was up 143,000 in December. It's early, but we expect payrolls to grow roughly 200,000 in January. Also, don't be surprised if December payrolls are revised up next month; December 2012 was originally reported at 155,000 and later revised to 219,000. The bright spot in today's report was the decline in the jobless rate to 6.7%. However, much of the decline was due to a drop in labor force participation. Most of the drop in the jobless rate in the past year is due to job growth, but some of it is due to lower participation. In terms of the details of the report, although total hours were down in December and average hourly earnings only rose 0.1%, they are up a combined 3.4% versus a year ago, which means consumer incomes are still rising. This is more than enough for workers to keep pushing up spending, particularly in an environment where consumers' financial obligations are low relative to income. The labor market could and would be doing better with a better set of public policies. But it is still improving. In the past year nonfarm payrolls have grown at an average monthly rate of 182,000 while civilian employment is up 96,000 per month. Over time, we expect these two rates of job growth to converge and think the pace of growth in civilian employment is likely to accelerate.

Change in Total Private Payrolls
 SA, Thous



Civilian Unemployment Rate: 16 yr +
 SA, %



Employment Report All Data Seasonally Adjusted	Dec-13	Nov-13	Oct-13	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	6.7	7.0	7.2	7.0	7.1	7.4
Civilian Employment (monthly change in thousands)	143	958	-785	105	85	96
Nonfarm Payrolls (monthly change in thousands)	74	241	200	172	170	182
Construction	-16	19	8	4	5	10
Manufacturing	9	31	17	19	11	6
Retail Trade	55	22	55	44	39	32
Finance, Insurance and Real Estate	4	1	9	5	4	7
Professional and Business Services	19	41	52	37	39	53
Education and Health Services	0	41	26	22	26	27
Leisure and Hospitality	9	20	45	25	20	33
Government	-13	15	-17	-5	2	-2
Avg. Hourly Earnings: Total Private*	0.1%	0.2%	0.1%	1.3%	1.4%	1.8%
Avg. Weekly Hours: Total Private	34.4	34.5	34.4	34.4	34.4	34.5
Index of Aggregate Weekly Hours: Total Private*	-0.2%	0.5%	0.1%	1.6%	1.2%	1.6%

*3, 6 and 12 month figures are % change annualized