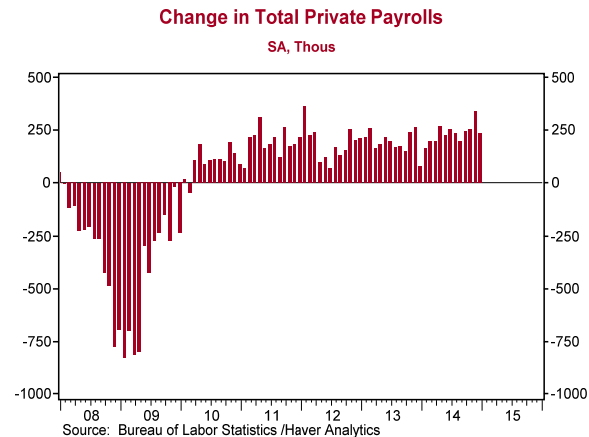


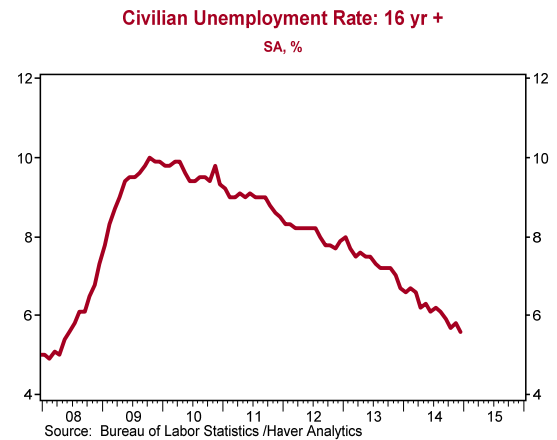
December Employment Report

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- Nonfarm payrolls increased 252,000 in December (302,000 including upward revisions to prior months), versus a consensus expected 240,000.
- Private sector payrolls increased 240,000 in December. Including revisions to prior months, private payrolls increased 290,000. The largest gains were for professional & business services (+52,000, including temps), construction (+48,000), health care & social assistance (+44,000), and restaurants & bars (+44,000). Manufacturing payrolls increased 17,000 while government rose 12,000.
- The unemployment rate fell to 5.6% in December from 5.8% in November.
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – declined 0.2% in December but are up 1.7% versus a year ago.



Implications: Another very good report on the direction of the labor market. Nonfarm payrolls increased 252,000 in December and were revised up 50,000 for prior months, with all of the upward revision coming from the private sector. Overall, nonfarm payrolls grew 2.95 million in 2014, the best year since 1999. Meanwhile, the unemployment rate fell to 5.6%, the lowest so far in the recovery and barely above where the Federal Reserve pegs the long-term average in a “normal” economy. In a way, today’s report is the labor market in a nutshell: where employers still have wide discretion, like hiring, payrolls are increasingly rapidly. Where government interference is receding things are getting better. Extended unemployment benefits ended at the start of 2014 and right on cue the median duration of unemployment plummeted, ending the year at 12.6 weeks versus 17.0 weeks a year ago. That drop of 4.4 weeks is the largest in any calendar year on record. But, where the government is still interfering with the labor market, we have stagnation. So, for example, the new health care system is forcing companies to spend more on health care, which means less money left for higher wages – despite the big drop in the unemployment rate, wages are up a tepid 1.7% (not including fringe benefits like health care or tips, irregular bonuses, or commissions). Meanwhile, on top of an aging population we have easily obtainable disability benefits and overly generous aid to students, so the labor force participation rate remains at the lowest level since New Yorkers were lining up for Studio 54. This combination of freedom and government interference is why the economy is still a Plow Horse. What’s notable is that taking all this into consideration, the economy looks OK. Although average hourly wages fell 0.2% in December, we aren’t worried about workers’ purchasing power. It looks like consumer prices fell about 0.4% in December, so “real” (inflation-adjusted) earnings were likely still up. Also, even without adjusting for prices, total hours were up in December, so total cash earnings were unchanged in December and up 5% from a year ago. Despite modest inflation, the strength in the labor market supports our forecast that the Fed will start raising short-term rates in the second quarter. Nonfarm payrolls increased 246,000 per month in 2014 while civilian employment, an alternative measure of jobs that includes small-business start-ups rose 231,000 per month. We expect even more job growth, less unemployment, and (finally!) faster wage growth in the year ahead.



Employment Report <i>All Data Seasonally Adjusted</i>	Dec-14	Nov-14	Oct-14	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	5.6	5.8	5.7	5.7	#N/A	#N/A
Civilian Employment (monthly change in thousands)	111	71	653	278	#N/A	#N/A
Nonfarm Payrolls (monthly change in thousands)	252	353	261	289	264	246
Construction	48	20	16	28	25	24
Manufacturing	17	29	24	23	18	16
Retail Trade	8	56	33	32	26	21
Finance, Insurance and Real Estate	10	21	4	12	13	10
Professional and Business Services	52	87	51	63	59	61
Education and Health Services	48	41	44	44	43	40
Leisure and Hospitality	36	53	60	50	39	35
Government	12	8	6	9	9	8
Avg. Hourly Earnings: Total Private*	-0.2%	0.2%	0.1%	0.5%	1.0%	1.7%
Avg. Weekly Hours: Total Private	34.6	34.6	34.5	34.6	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.6%	0.2%	4.0%	3.2%	3.3%

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