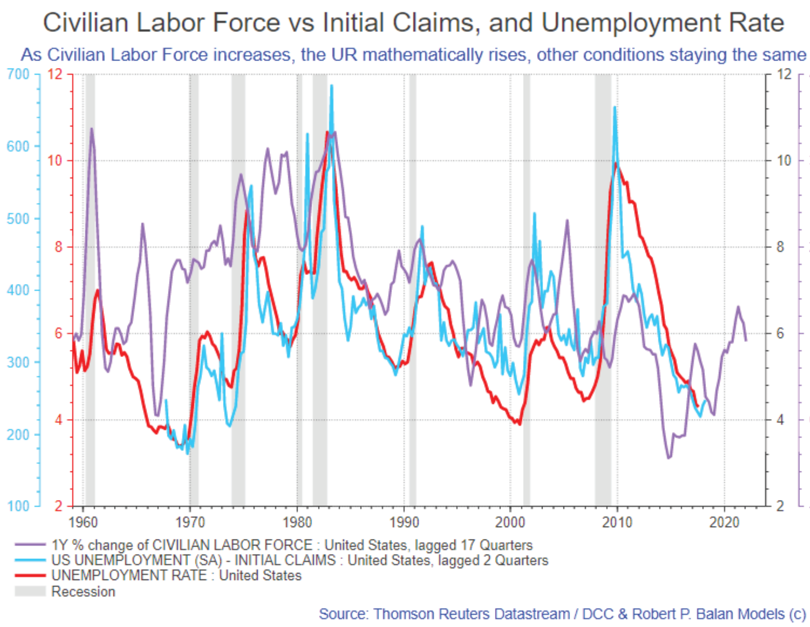
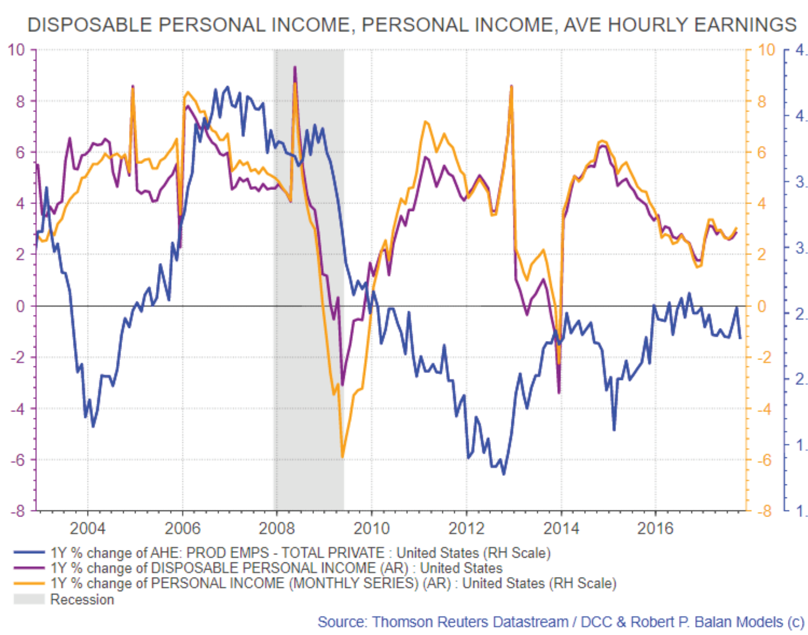
26 / US jobs data shows late business cycle-stage symptoms; the Unemployment Rate decline looking terminal

The November US labour report will be due on December 7, but **we revisit the October report released on November 2 to get some sense of what to expect for this month's data from the BLS**. The key points in the October labour report: (1) 261,000 jobs were added; (2) The U3 unemployment rate was down -0.1% from 4.2% to 4.1%; the U6 underemployment rate was down -0.3 from 8.2% to7.9%; (3) The August was revised upward by +39,000. September was also revised upward by +51,000, for a net change of +90,000; (4) The average manufacturing workweek rose +0.2 hours from 40.8 hours to 41.0. This was significant as this data is one of the 10 components of the US Leading Economic Indicator; (5) Overtime rose +0.2 hours to 3.5 hours; the index of aggregate hours worked in the economy rose by 0.2 from 107.4 to 107.6; (6) The labour force participation rate fell-0.4% m/m and was down-0.1% YoY from 63.1% to 62.7%, and that has added to the civilian labour force, which later in the terminal phase of the Business cycle, will mathematically push up the Unemployment Rate, ceteris paribus. That situation may appear before the year is over (*see 1st chart*).

It was an excellent report in terms of labour utilization, decent in terms of jobs growth, and poor in terms of wages. The big declines in unemployment, underemployment, involuntary part time employment, and persons who want a job now but haven't looked have nudged the labour market very close to what has been «full employment» in the past two expansions. "Full employment" may be achieve with as little as 1.5 million more jobs. This is what has been making the Fed edgy and keeping US monetary policy biased towards further tightness.





What is not to be liked: (1) **The total gain in employment** in the last two months is 279,000, or an average of 140,000 per month for the hurricane-affected month and the recovery. **This is no better than mediocre or average**; (2) **Hourly wages for nonsupervisory workers** actually declined month-over-month and are still only up 2.4% YoY – **that was simply awful this late into an expansion.** *The 2nd graph above* **show that Disposable Personal Income and Personal Income are barely getting above 2% on the Y/Y basis**. Average hourly earnings (blue line), which are part of the employment report, are still weak on a historical basis.

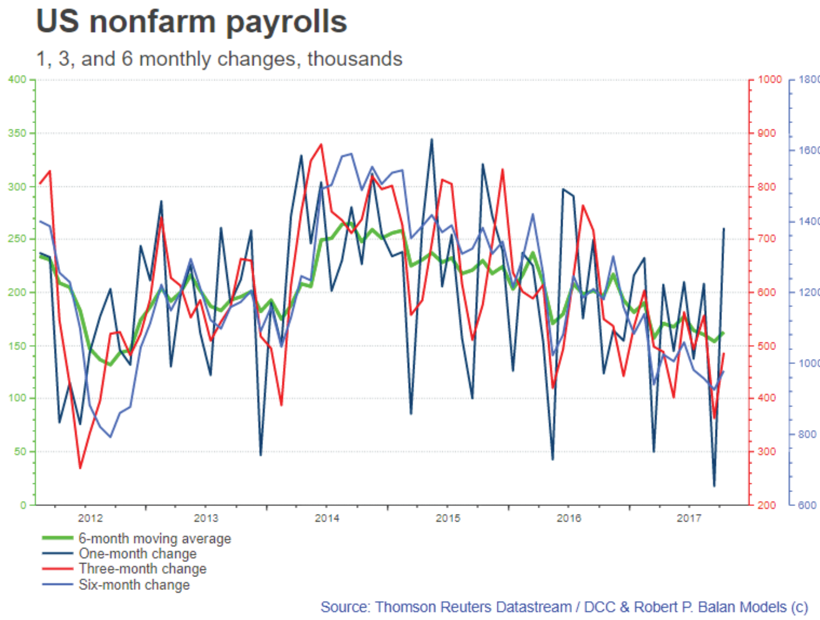
The October jobs report was considered good, but in reality, it was more nuanced than a simple reading of the headlines suggests. It added more data, which when linked to previous unfavourable data, collectively suggest that the current Business Cycle may be starting to show signs of aging.

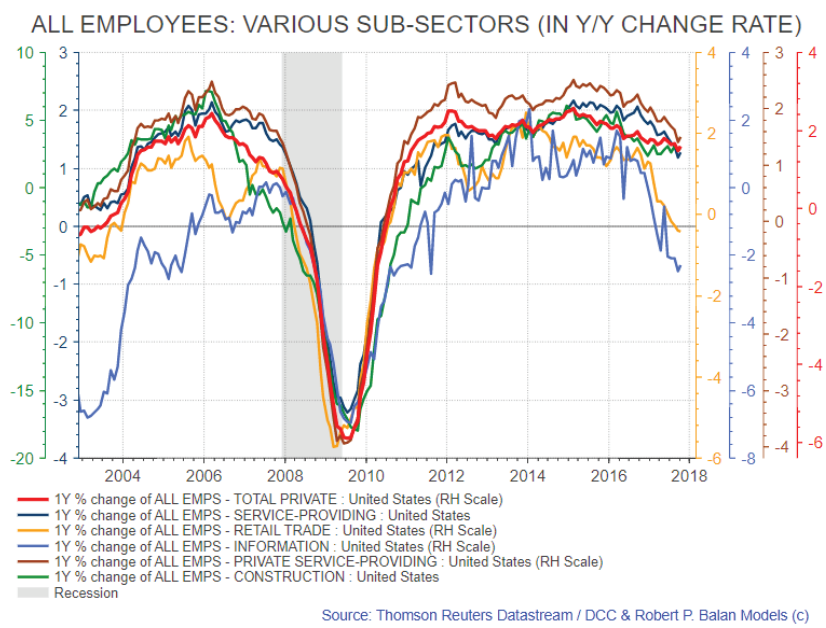
Here is one such nuanced data, shown in the *1st chart of this page*: Primarily, the 3, 6 and 12-month moving average of establishment job growth is just slightly above 150,000/month. The average has been declining since early 2014, when it was averaging more than 250,00/month. As we are now late in the game of this recovery, we should not expect more than 150,000 average month growth going forward. We expect that average to fall further as payroll peak soon and jobs growth falls.

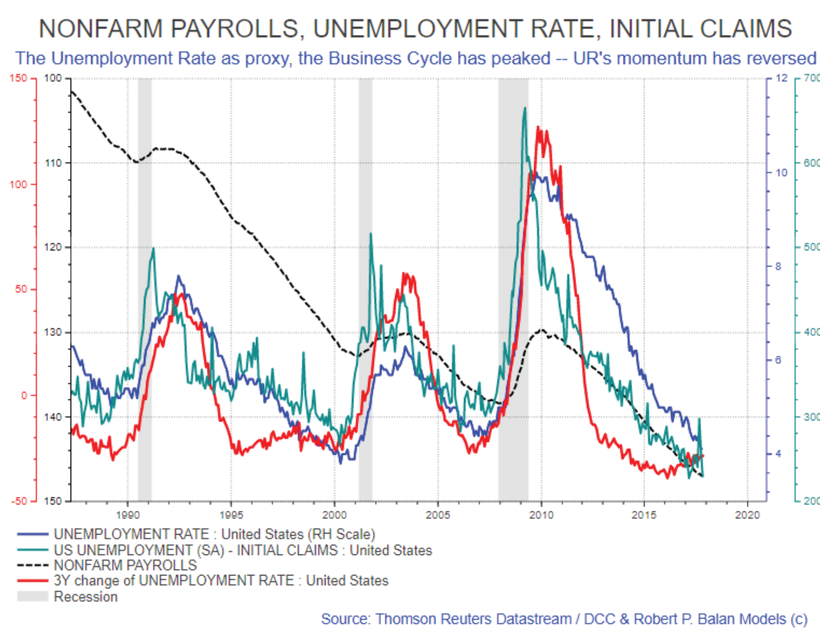
The 2nd chart on this page **shows how the momentum of job-creation is fast waning – payroll data year-on-year have been declining since a top in the middle of 2015**. The year-on-on change rate of Employment – Total Private, has rolled over. Total service producing jobs (top graph), while still nominally positive, are declining Y/Y. Both retail and information jobs are declining, as well as construction and private-service. **The deterioration of the payroll data is starting to spill-over into the initial claims, and the unemployment rate – the year-on-year deterioration of payrolls are now seen in the Unemployment rate - another sign that the Business Cycle is becoming mature** *(see 3rd graph on this page)* **-**

Here is another nuance: employment in the key working age group of 25-54-year-olds fell 305,000, but this was partially offset by a 195,000 increase in 55+ employment cohort. Normally, it should be the reverse - so more near-retirement people working and fewer people in prime working years in the active labour force isn›t a positive sign at all (*see 1st chart on the next page*).

There is now a record spread between job openings and hires in the monthly Job Openings and Labour Turnover Survey (JOLTS) report (*see 2nd chart on the next page*). The Hires data has been flat since late 2015 and is currently declining. This issue will continue to be a drag on employment growth as well as a negative to







domestic economic growth. The wide spread between opening and hires is hardly indicative of further growth in payrolls down the road. The separations data has also flattened, signifying that employees have gotten less sure about quitting their jobs now as they may not be able to find suitable employment elsewhere, even as over-all job availability is still ample (as it may not be jobs that they can qualify at).

Conclusion

From the labour market perspective, it is increasingly becoming clear, at least to us, that the upswing phase of the current Business Cycle is starting to show signs of aging. While we remain upbeat about the prospects of risk assets up to Q1, and possible even Q2 2018, **it may be necessary thereafter to start rotating again into assets that do well during the terminal stages of the Business Cycle, like hard assets, including commodities.**