

DAILY GLOBAL  
COMMENTARY

Northern Trust  
Global Economic Research  
50 South LaSalle  
Chicago, Illinois 60603  
northerntrust.com

Asha Bangalore  
[agb3@ntrs.com](mailto:agb3@ntrs.com)

## November Employment Data Keep Fed on Hold for Now

December 8, 2006

**Unemployment rate:** 4.5% in November vs. 4.4% in October

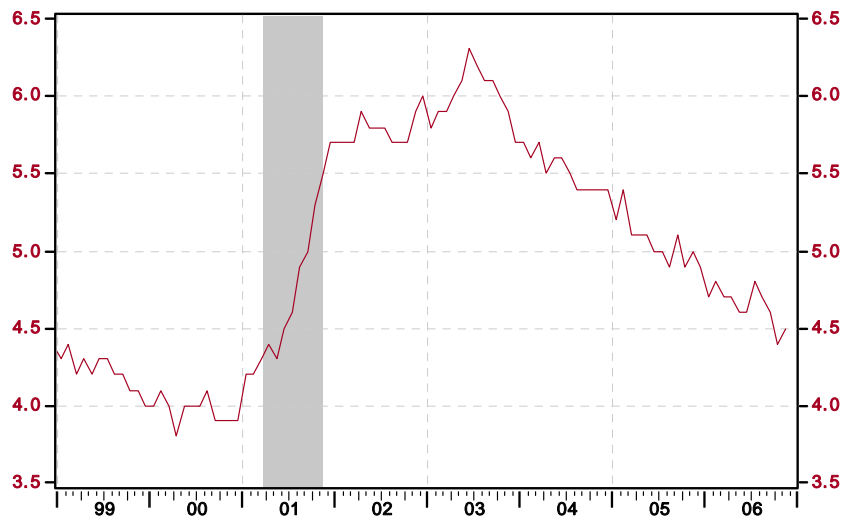
**Payroll employment:** Nonfarm payrolls rose 132,000 in November, after a downwardly revised gain of 79,000 in October.

**Household Survey** – The unemployment rate moved up one notch to 4.5% in November. The participation rate also increased to 66.3% in November from a 66.2% reading in each of the five months ended October. The FOMC needs additional gains in the unemployment rate in an environment when other economic data are signaling weakening economic conditions to have an air tight case for lowering the federal funds rate.

Chart 1

Civilian Unemployment Rate: 16 yr +

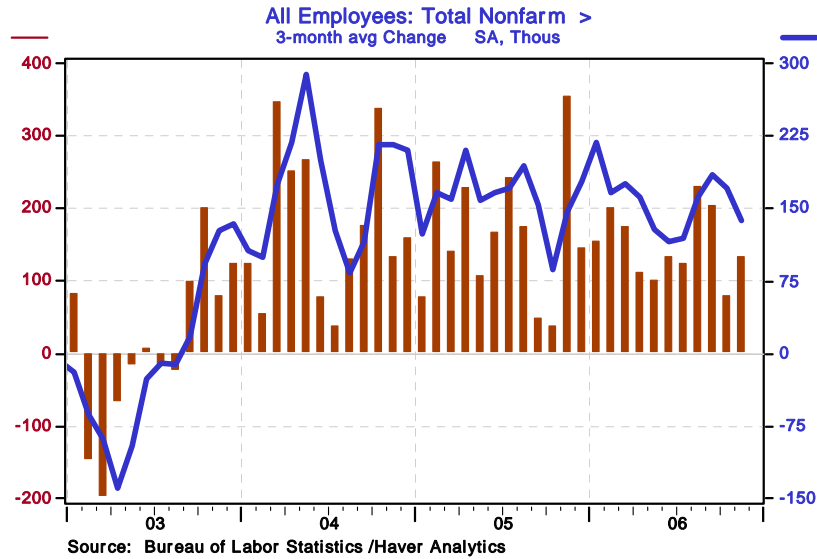
SA, %



Source: Bureau of Labor Statistics /Haver Analytics

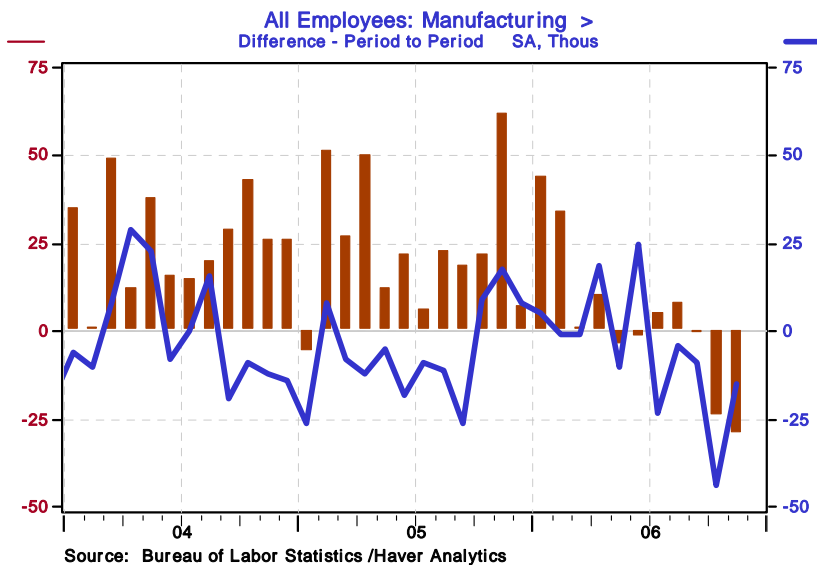
**Establishment Survey** – Nonfarm payrolls rose 132,000 in November after a downwardly revised gain of 79,000 in October. The September and October revisions of payrolls resulted in a net addition of 42,000 compared with the earlier estimate. The 3-month moving average of payrolls in November has slowed to 138,000 jobs vs. 171,000 jobs in October.

Chart 2  
 < All Employees: Total Nonfarm  
 Difference - Period to Period SA, Thous



Hiring in factories declined 15,000 and 29,000 construction jobs were lost. Auto sector jobs dropped 7,000 and hiring in two construction-related industries, wood products (-6,000) and furniture and related products (-5,000), fell in November. Employment by residential specialty trade contractors is down 109,000 after peaking in February 2006.

Chart 3  
 < All Employees: Construction  
 Difference - Period to Period SA, Thous



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

But employment rose in several service-providing industries. Professional and business services employment rose 43,000, health care jobs increased 28,000, the leisure and hospitality industries added 34,000 jobs, and retail employment advanced 20,000.

The average workweek was unchanged in November. The manufacturing man-hours index fell 0.4% in November suggesting a drop in factory production during November which is consistent with the manufacturing ISM survey results. This would mark the third consecutive monthly decline in manufacturing output. Peaks in manufacturing output historically have tended to signal peaks in cyclical business expansions. Hourly earning increased 3 cents to \$16.94, taking the year-to-year increase to 4.1%. Employment and weekly earnings data point to a small increase in the wages/salary component of November personal income.

**Conclusion** – The FOMC is expected to leave the federal funds rate unchanged at 5.25% on December 12. A preponderance of economic data -- sluggish payroll gains, a rise in the unemployment rate, year-over-year increases in initial jobless claims, a below 50.0 reading of the Purchasing Managers' Index, declining construction outlays, declining auto sales, a deceleration in overall consumer spending and continued weakness in the housing market -- point to below-potential real economic growth. But before entertaining an interest rate cut, the FOMC will need additional evidence of a weakening labor market and a more evidence that core inflation has peaked. We expect that evidence to be at hand by the time of the March 21 FOMC meeting. By the time of the January 31 FOMC meeting, the Fed could give us a "heads up" about an imminent rate cut.

#### HIGHLIGHTS OF THE NOVEMBER EMPLOYMENT REPORT

	<u>Jun-06</u>	<u>Jul-06</u>	<u>Aug-06</u>	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>
<b>Household Survey</b>						
Chg. in Civilian Labor Force (000)	330	213	164	101	199	383
Chg. in Civilian Employed (000)	387	-34	250	271	437	277
Civilian Unemployment Rate	4.6	4.8	4.7	4.6	4.4	4.5
Participation Rate	66.2	66.2	66.2	66.2	66.2	66.3
<b>Establishment Survey</b>						
Chg. in Total Nonfarm Payrolls (000)	134	123	230	203	79	132
Chg. in Manufacturing Payrolls (000)	25	-23	-4	-9	-44	-15
Chg. in Services Ex. Government (000)	79	119	173	155	113	154
<b>Total Workweek (Hours)</b>						
Manufacturing Workweek (Hours)	41.3	41.4	41.3	41.1	41.2	41.1
Manufacturing Overtime (Hours)	4.6	4.5	4.4	4.3	4.3	4.2
<b>Average Hourly Earnings</b>						
	16.69	16.76	16.81	16.85	16.91	16.94
Chg. from prior month	0.4%	0.4%	0.3%	0.2%	0.4%	0.2%
Chg. from year ago	3.9%	3.8%	4.0%	4.1%	3.9%	4.1%
<b>Average Weekly Earnings</b>						
	565.79	568.16	568.18	569.53	573.25	574.27
Chg. from prior month	0.7%	0.4%	0.0%	0.2%	0.7%	0.2%
Chg. from year ago	4.5%	4.1%	4.3%	4.1%	4.2%	4.4%
<b>Index of Aggregate Weekly Hours:</b>						
Chg. from prior month in Total Index	0.4%	0.1%	-0.1%	0.1%	0.3%	0.1%
Chg. from prior month in Mfg. Index	0.5%	0.1%	-0.2%	-0.7%	-0.2%	-0.4%

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.