

## Job Market Making Progress

Many analysts were disappointed by last Friday’s job report for December, but we think the headline masks an overall report that shows continued improvement in the labor market and a possible surge in small-business start-ups and entrepreneurship.

Nonfarm payrolls rose 199,000 in December versus a consensus expected 450,000. Payroll growth was revised up a combined 141,000 in October and November, which brought total growth to a still short, but respectable, 340,000. This was the fourth time in the last five months that payrolls missed consensus expectations.

However, even as payrolls have recently fallen short, civilian employment, an alternative measure of jobs, has been rising fast, including a gain of 651,000 in December and an increase of 1.09 million in November.

Over long periods of time, and after some revisions, the two surveys closely mirror each other, but in the short run they often deviate. Reading too much into one survey over the other, and every short-term gyrations in the data, is a mistake. This is especially true when we account for COVID.

The design of the civilian employment survey makes it better able to capture small-business start-ups and we think that’s a potential reason for slow recent growth in payrolls: entrepreneurs are leaving established businesses (some of whom are supposed to fill out the payroll survey) and setting up their own shops (which can’t fill out the payroll survey because the Labor Department doesn’t know enough about them yet).

One possibility is that people who’ve been working from home feel less attached to large employers and are more willing to strike out on their own. Or maybe it’s a concern about some big company requiring vaccines that’s making some workers leave these employers. Only time will tell.

Either way, we think more small-business start-ups is a good sign for future job growth.

Overall, we think job growth will be strong in 2022. Payrolls rose 537,000 per month in 2021 (and should be revised up in the next couple of months). For 2022, we expect job growth of 325,000 - 350,000 per month, so that by late 2022 total jobs finally exceed the pre-COVID peak. Meanwhile the jobless rate should fall to 3.5%, where it was right before COVID.

Normally job growth this fast would be associated with very rapid real GDP growth, as well. But this is not a “normal” economy. Lockdowns have damaged supply chains severely and the government has grown substantially in the past couple of years, with federal spending setting peacetime records as a size of GDP. Add in the Federal Reserve and its money printing and demand surged. The regulatory state is growing faster, too. This increase in the size of government, even if some of it is (hopefully) temporary will come with a cost. And we think that means slower productivity growth (output per hour) in 2022.

Think about it from the perspective of many businesses, which have struggled to hire the workers they need. They have more of an incentive to keep their most marginal (lowest productivity) employees in the hopes of being able to eventually train them into future profitability. Business beggars can’t be choosers, and less selectivity will create a headwind for output per hour even as the labor market continues to heal.

In turn, that means profits should grow but not nearly as quickly as in 2021. We are still bullish, but we also know that no bull can run forever. And while some think some weak data signals the end, looking beneath the surface is important.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-12 / 7:30 am	CPI – Dec	+0.4%	<b>+0.5%</b>		+0.8%
7:30 am	“Core” CPI – Dec	+0.5%	<b>+0.4%</b>		+0.5%
1-13 / 7:30 am	Initial Claims – Jan 9	200K	<b>205K</b>		207K
7:30 am	PPI – Dec	+0.4%	<b>+0.3%</b>		+0.7%
7:30 am	“Core” PPI – Dec	+0.5%	<b>+0.2%</b>		+0.7%
1-14 / 7:30 am	Retail Sales – Dec	0.0%	<b>+0.3%</b>		+0.3%
7:30 am	Retail Sales Ex-Auto – Dec	+0.2%	<b>+0.3%</b>		+0.3%
7:30 am	Import Prices – Dec	+0.2%	<b>-0.3%</b>		+0.7%
7:30 am	Export Prices – Dec	+0.3%	<b>+0.3%</b>		+1.0%
8:15 am	Industrial Production – Dec	+0.2%	<b>+0.1%</b>		+0.5%
8:15 am	Capacity Utilization – Dec	77.0%	<b>76.8%</b>		76.8%
9:00 am	Business Inventories – Nov	+1.3%	<b>+1.3%</b>		+1.2%
9:00 am	U. Mich Consumer Sentiment- Jan	70.0	<b>70.6</b>		70.6