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US Economics | North America

Employment Report Preview: Solid, but slowing

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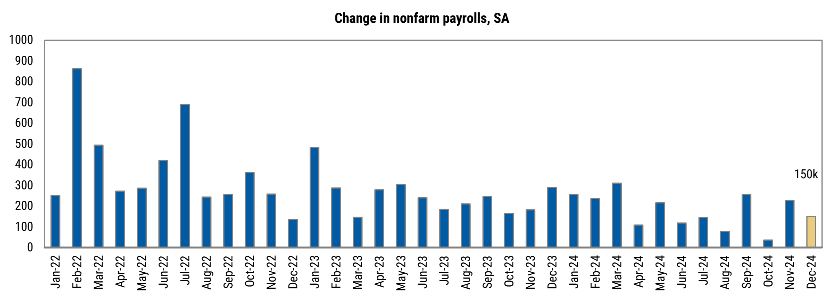
We forecast 150k in December payrolls, following November's 227k rise that we estimate at 127k ex storms and strikes. We see no further fundamental weakening in December, but payrolls have slowed from earlier in the year. The UE rate increases to 4.3% and AHE rises 0.3%.

Exhibit 1: Employment forecast details

Employment Report: Forecasts & Recent History	Est.	Consensus		Actual		
	Dec-24	Dec-24	Nov-24	Oct-24	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	150	153	227	36	173	290
Private payrolls	115		194	-2	138	214
Unemployment rate (%)	4.3	4.2	4.2	4.1	4.2	3.7
Labor force participation rate (%)	62.6		62.5	62.6	62.6	62.5
Average weekly hours	34.3	34.3	34.3	34.2	34.3	34.4
Average hourly earnings (%M)	0.3	0.3	0.4	0.4	0.4	0.3
%Y	4.0		4.0	4.0	4.0	4.3

Source: Bureau of Labor Statistics, (BLS), Bloomberg, Morgan Stanley Research forecasts

Exhibit 2: We project payrolls rose 150k in December.



Source: BLS, Morgan Stanley Research forecasts

For important disclosures, refer to the Disclosure Section, located at the end of this report.

Payrolls Forecast

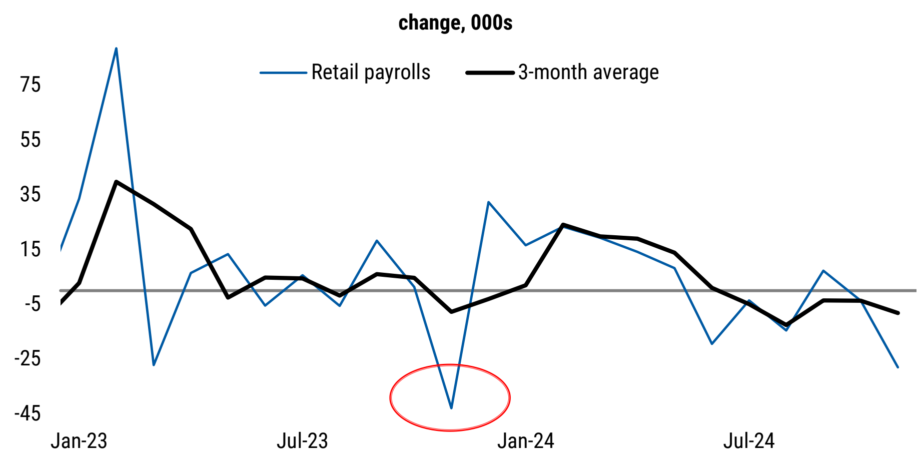
We forecast a 150k increase in nonfarm payrolls in December and a one-tenth rise in the unemployment rate to 4.3%. The labor market is on solid footing, but employment growth slowed and overall labor market conditions cooled in 2024. The good news is the labor market is not softening as suddenly as it appeared to do last summer.

We see **risks** to our forecasts from retail payrolls and from labor supply. In retail, payrolls can be volatile this time of year due to changing seasonal hiring patters post-pandemic. We expect a rebound in retail employment, which we discuss in more detail below. Labor supply is a more fundamental uncertainty: immigration began slowing in July or August. Slower immigration is likely beginning to slow payrolls and lower the unemployment rate, but the exact timing is hard to estimate.

A rebound in retail payrolls is important to our forecast for December. After November's 28k decline, we forecast a 10k rise---a +38k swing. Retail spending has been strong, and coming into the holidays, retail hiring plans looked stronger than last year. That alone made us suspicious of last month's decline. In 2023 retail employment zig-zagged, with retail payrolls falling 43k in November but rebounding 32k in December. We're expecting a similar pattern this year. There's risk in both directions because of the gyrations in holiday spending and hiring patterns since the pandemic.

Other sectors that add risk: Like retail, transport payrolls can be volatile this time of year, as can education payrolls.

Exhibit 3: Retail payrolls fell in November. We expect a December rebound like last year's.

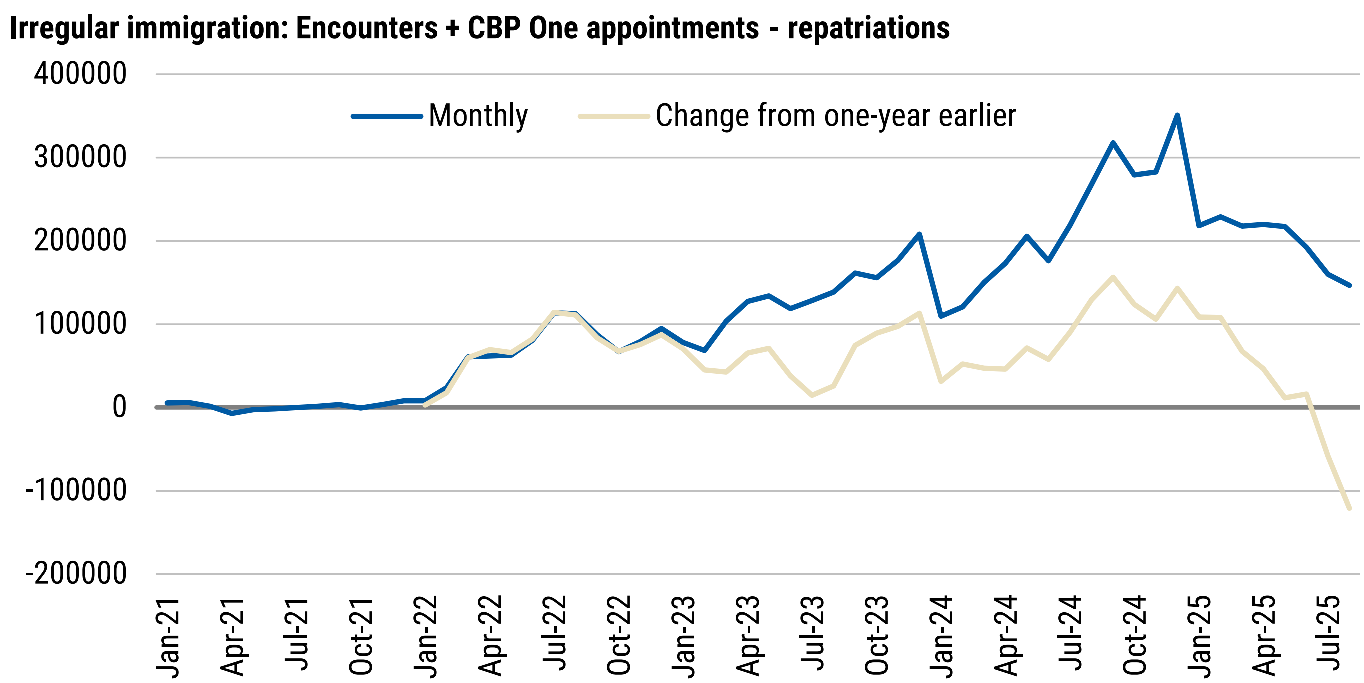


Source: BLS, Morgan Stanley Research

Immigration is mostly a 2025-26 issue (or so we think), but there were also policy changes in 2024 that could begin to affect the labor market. Through June, irregular border crossings had continued to accelerate from a year earlier. Encounters between border points with unauthorized immigrants slowed. But, through mid-year, there was an offsetting increase in scheduled appointments for unauthorized immigrants, through CBP One, that more than made up for the slowing in encounters. Then, in July and August, total flows slowed sharply and were declining relative to a year earlier. This is a drag on labor supply growth. It decreases slack in the labor market at the same time as it slows payrolls. Both payrolls and the unemployment rate face downward pressure, which is an unusual mix from a historical perspective. It may make reading labor market conditions more difficult depending on whether the signal from labor demand (via employment) outweighs that from slack (via the unemployment rate).

Empirically, the pace of payroll growth consistent with an unchanged unemployment rate has been slowing. We estimated it at 265k per month in payrolls at the end of 2023 and 225k per month at the end of 2024. There is a high degree of uncertainty around these estimates but we think the direction is fairly clear. On net, we don't expect sudden further slowing in breakeven employment in December, alone. If there is, it will show as weaker payrolls and a lower unemployment rate.

Exhibit 4: Irregular immigration slowed in July and August.

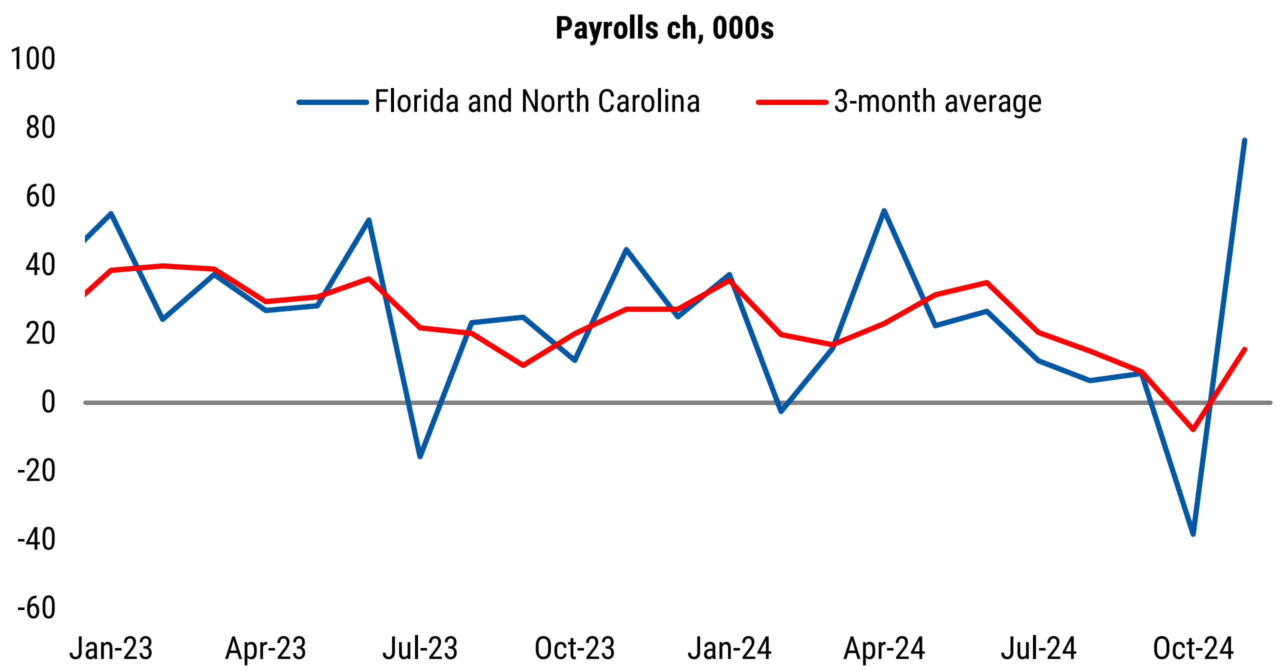


Source: Department of Homeland Security, Morgan Stanley Research

Hurricane effects are finished. We estimated the hurricane subtracted 60k from NC and FL payrolls in October, then added twice that in November, fully reversing the drag. Exhibit 5 below shows the November surge.

Returning **strikers** boosted November payrolls by about 40k, but there's no repeat in December.

Exhibit 5: Payrolls fell 38k in Florida and 6k in North Carolina—they appear to have subtracted about 60k from October payrolls



Source: BLS, Morgan Stanley Research

Calendar effects. We are not expecting distortion to payrolls or the unemployment rate from calendar effects. The late Thanksgiving holiday does not appear to have had a large effect. The household survey has an additional quirk this year: the survey week is earlier than usual---the week of the fifth. Again, though, we do not see a distortion.

December is a month in which employment slips slightly before seasonal adjustment. Last year (in 2023), the seasonal factor allowed for a 368k decline in NSA payrolls.

Exhibit 6: Industry breakdown of payrolls, and our December forecast

	Average monthly change							
monthly change, 000s	**1Q24**	**2Q24**	**3Q24**		**Sep**	**Oct**	**Nov**	**Dec est**
Nonfarm	**267**	**147**	**159**		**255**	**36**	**227**	**150**
Private	203	137	119		222	-2	194	120
Goods-producing	26	4	13		15	-44	34	11
Mining and logging	0	-3	1		1	2	2	1
Construction	29	9	23		26	2	10	10
Manufacturing	-3	-2	-11		-12	-48	22	0
Motor veh.	1	3	-5		-5	-3	0	
Service-producing	177	133	107		207	42	160	110
Wholesale	0	4	5		2	4	2	0
Retail	20	1	-4		7	-4	-28	10
Trans. & warehousing	11	19	6		8	-4	3	-2
Utilities	1	1	1		3	-1	0	1
Information	2	-1	-8		1	-6	0	-8
Financial	-2	7	3		6	6	17	3
Professional & business services	24	9	-10		22	-23	26	25
Temp help	-3	-13	-13		5	-33	2	
Education	5	3	8		9	3	7	3
Health care, social assistance	81	80	67		81	64	72	50
Leisure & hospitality	26	4	36		61	2	53	25
Other services	11	6	2		6	0	8	2
Government	64	10	40		33	38	33	30
Federal	11	1	2		4	2	-2	
State and local	54	9	38		29	36	35	

Source: BLS, Morgan Stanley Research forecasts

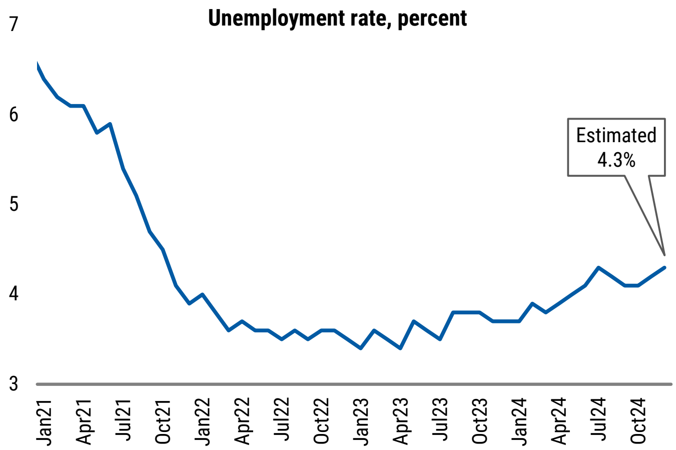
Hours and earnings

For average hourly earnings, we forecast an on-trend 0.3% m/m gain in average hourly earnings and a stall at 4.0% on a 12-month basis. The workweek was probably unchanged. If we are correct, our forecast suggests continued growth in aggregate labor market income that is outpacing inflation.

Unemployment Rate and Labor Force Participation

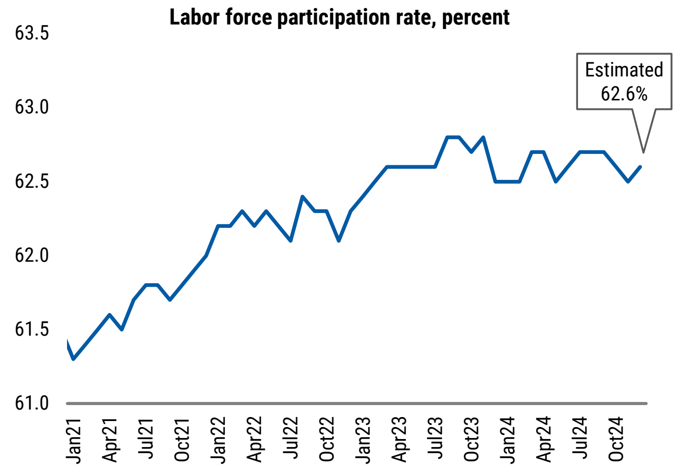
November's unemployment rate was 4.246% before rounding---just barely rounding down to 4.2%. We expect it ticks up to 4.3% in December, continuing its gradual uptrend. The labor force participation rate also inches up, continuing to trend sideways.

Exhibit 7: We forecast the unemployment rate increases a tenth to 4.2%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

Exhibit 8: We expect labor force participation increases a tenth to 62.7%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

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