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Macro Alert

Strange Jobs Report Opens Door for March Rate Hike

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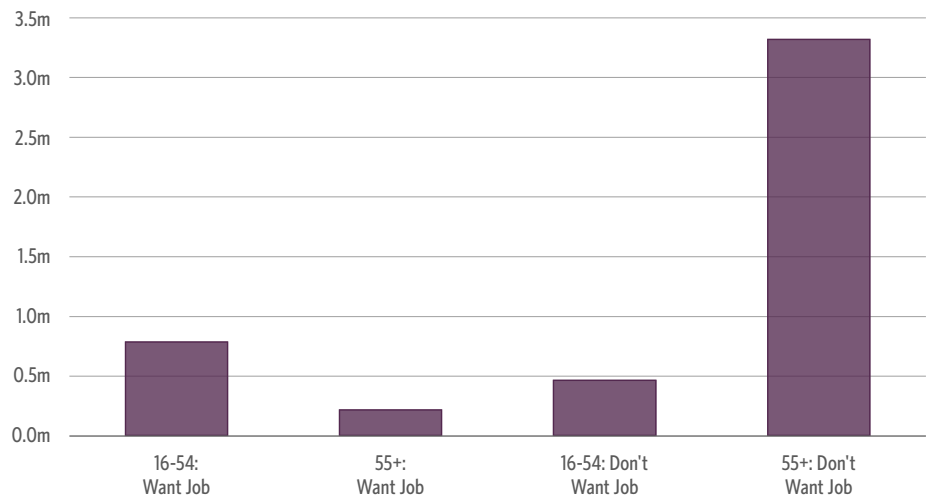
The headline nonfarm payroll number was a big miss at 199,000 (vs. 450,000 expected). Seasonal adjustment problems may be partly to blame for the payrolls miss, but we expect the December release will also see upward revisions, as alternative data sources report much stronger job growth last month.

Despite the payrolls miss, the rest of the report points to a hot labor market. Most notably, the unemployment rate dropped by 30 basis points to 3.9 percent, which is just 40 basis points above where the Federal Reserve (Fed) expects unemployment to be in the fourth quarter of 2022. We could reach that level as early as this spring with the possibility of reaching 3 percent by December. The tight labor market will increase wage pressure, making a March increase in the overnight rate more likely.

The drop in the unemployment rate was due to a gain of 651,000 people working in the household survey, while the labor force participation rate was unchanged. The

Most of Remaining Labor Force Shortfall is People 55+ Who Don't Want to Work

Not in Labor Force by Age and Reason: Dec. 2021 Compared to 6m Pre-Covid Average

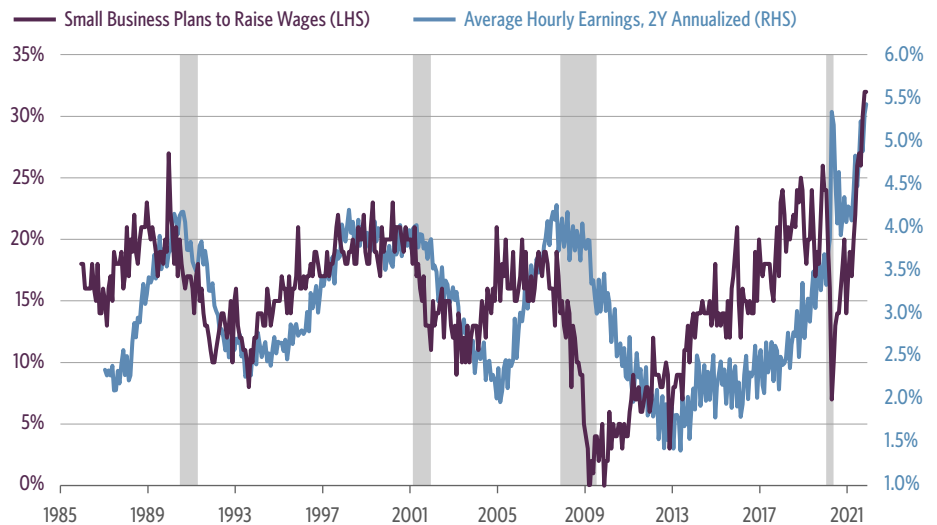


Source: Guggenheim Investments, Haver Analytics. Data as of 12.31.2021.

unchanged participation rate will add weight to Fed Chair Powell's comments that a good portion of the participation shortfall is voluntary at this point, meaning that the labor market may already be at or beyond full employment.

In another sign of how tight the labor market is, average hourly earnings rose 0.6 percent month over month, 20 basis points higher than expected, and November wage growth was also revised up. This wage data corroborate other data we're seeing on worker bargaining power, with both the quits rate and small business wage plans at record highs. Powell has repeatedly cited strong wage growth as an upside risk to inflation.

Wages Are Booming With Business Signaling More Ahead



Source: Guggenheim Investments, Haver Analytics. Data as of 12.31.2021.

With the unemployment rate likely to reach the Fed's end of 2022 target within the next few months, and with rising risks of soaring wage growth exacerbating inflation, a March rate hike is increasingly likely.

IMPORTANT NOTICES AND DISCLOSURES

One basis point = 0.01 percent.

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