



US December jobs report

US unemployment rate rises to 4.6% in November as jobs growth weakens

The US government has resumed publication of important economic data after the October government shutdown with the release of the November jobs report which also includes some data from October. For November, the unemployment rate rose to 4.6%, the highest level for 4 years. The monthly job gains came in at 64k for November, but this was after a 105k decline in October. Overall, the report indicates a cooling employment market but not a collapsing one. A further deterioration in the unemployment rate could convince the Fed to cut rates again, possibly even at the January meeting. However, given the increased variability in the data due to the government shutdown, it would likely take a rise in the unemployment rate to 4.8% or above in the December data (to be released January 9) for the Fed to consider cutting rates again at its January 28 meeting.

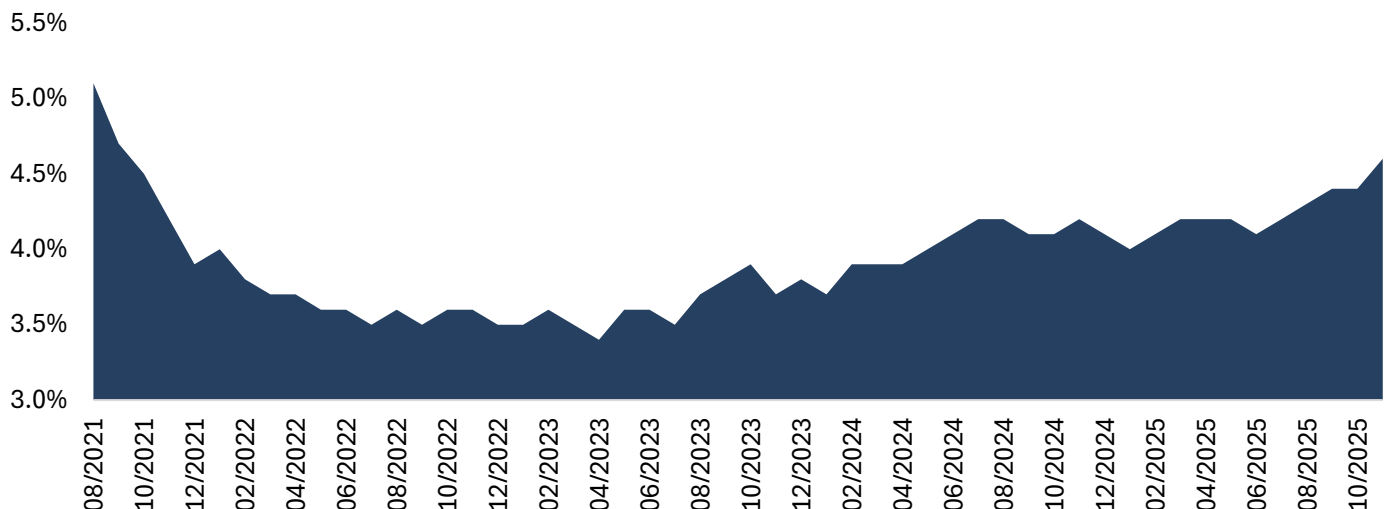
Some highlights from the data:

- The sharp decline in the October jobs was due to 162k Federal workers losing their jobs during the month after being fired during the DOGE cuts earlier in the year but paid through September. In total, there has been a 268k decline in Federal workers since the beginning of the year, mainly due to the DOGE cuts.
- Private payrolls have shown consistent growth this year, but this is mainly due to strong growth in Health Care and Social Assistance, which has added an average of 70k jobs per month and a total of 695k jobs so far this year. This compares to 766k total Private payroll growth for the year, indicating that Health Care and Social Assistance has accounted for over 90% of total Private sector jobs growth this year.
- The Goods producing part of the economy has lost 36k jobs this year as the Manufacturing sector has lost 63k jobs. After slight gains in February and March, Manufacturing has lost jobs every month since May. The increasing uncertainty from the tariff wars may have slowed down manufacturing activity and the government's ambition to reshore manufacturing to the US does not seem to be having an impact yet..

- Part of the reason for the rise in the unemployment rate was the rise in the Labor Force Participation Rate, which increased to 62.5% in November from 62.4% in September. The participation rate had declined sharply from 62.6% in April to 62.2% in July as the foreign born labor force declined by 1.65 million during those 4 months due to the government crackdown on immigration. The foreign born labor force seems to be steadying now and the overall labor force rising as more workers enter the workforce.
- Retail Sales data for October was also released today. Overall retail sales was flat on a month-on-month basis, but this was mainly due to a 1.6% decline in Auto sales. Retail Sales ex Autos was up 0.4% MoM and the Control Group (which strips out food service, gas, building materials and auto dealers) was up a healthy 0.8%. The Control Group data is used to calculate the quarterly GDP so this would indicate a relatively strong start to for the 4th quarter GDP.

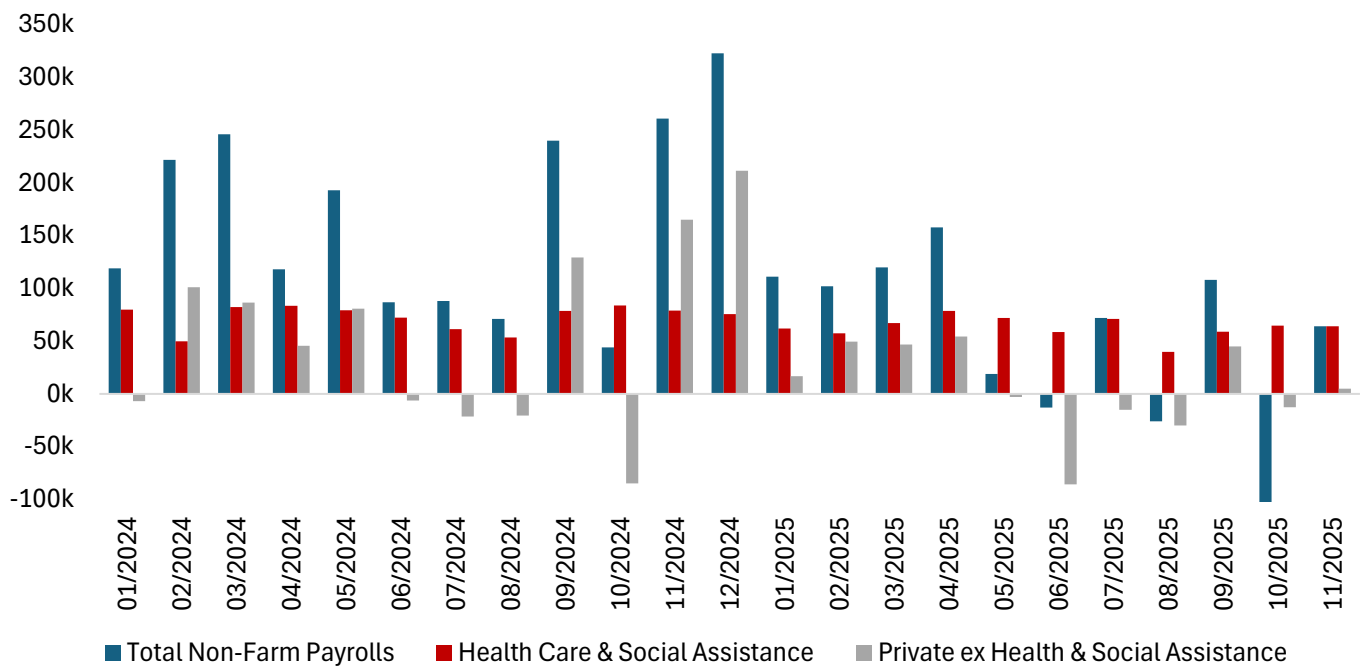
In the latest economic projections released by the Fed at its December meeting, the median projection was for just one rate cut of 0.25% in 2026. However, investors are assuming 2 rate cuts of 0.25% in 2026, based on market implied rates. It would take further weakness in the jobs market to push the Fed into 2 rate cuts as many members are still worried about inflation being above target. The data released today is not in itself enough to push the Fed into a further rate cut in January but the underlying weakness could encourage doves on the committee to push for a rate cut, especially if the unemployment rate deteriorates further in December. We are projecting 2 rate cuts of 0.25% in 2026 but do not expect one in January.

Unemployment rate rises to 4.6%, highest since September 2021

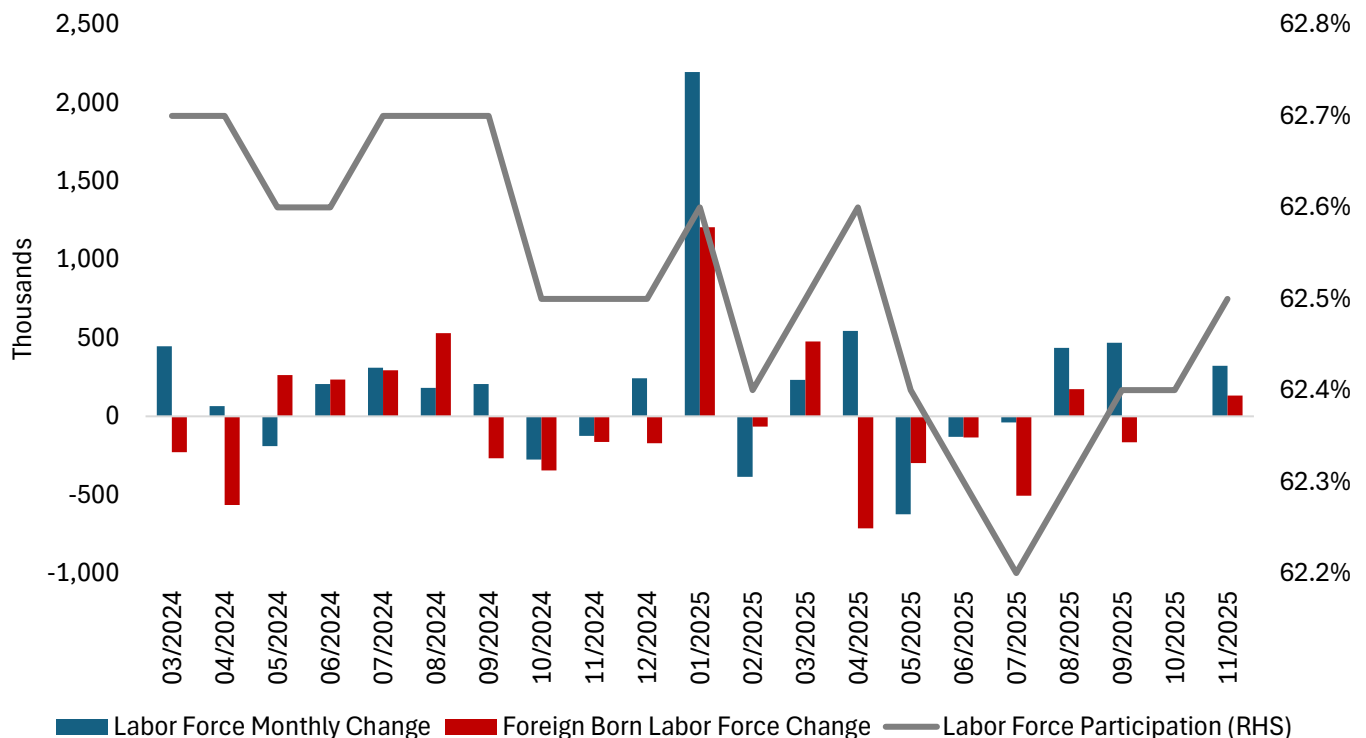


Source: Bloomberg/Bradesco

Health Care & Social Assistance accounts for most of the jobs growth this year



Labor Force Participation rebounding after earlier declines due to fall in Foreign Born Labor Force



Source: Bloomberg/Bradescio

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