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Instant Analysis of Today's Employment Report for December

Job Creation Solid in December; +252K vs. Consensus Exp. +240K
Nearly 3.0 Million Net New Jobs Created in 2014
October and November Job Numbers Revised Up a Net +50K
Unemployment Rate Falls 0.2% to 5.6% as Labor Force Contracts
Job Growth in All Major Sectors
Business Services (+51K), Ed & Health (+48K), Leisure & Hospitality (+36K)
Trade (+23K), Manufacturing (+17K), and Construction (+48K)
Biggest Surprise -Hourly Earnings Slip -0.2% in December; y-o-y up only 1.7%
Dec. Job's Report Good Enough to Keep Fed on Mid-2015 Rate Hike Course
Market Reaction to Payroll Report; USD Rises; Stocks Lower; 10-Yr Treasury Yield Flat 2.01%

The December jobs report underscores the resilience of the U.S. labor market recovery in 2014. Despite fears from some market participants that the December payroll report would disappoint, we received another solid reading on monthly job gains for December (+252K) that closely matches the average monthly gains for 2014 as a whole. Combine that with the net +50K upward revision for October and November payrolls and the 3-mo. moving average improved to +289K a month.

But what will make headlines is the two-tenths of a percentage point drop in the U.S. unemployment rate to 5.6 percent in December- the lowest national unemployment rate reading since June 2008. Economists will likely be marking down their estimates for U.S. unemployment rates for 2015 as a result. But before you get too excited about the improved unemployment rate, it was partly driven by another decline in the labor force. The labor force dropped -273K and the labor force participation rate fell to 62.7 percent from 62.9 percent in November. Those considered not in the labor force increased by +456K in December. Some of this weakness in the labor force is being driven by demographics- the aging and retirement of baby-boomers, but it is also a symptom that the labor market recovery and earnings growth may still be too weak to attract marginally attached workers back into the labor market.

More evidence of this weakness can be found in the average hourly earnings released with this report, which unexpectedly fell 0.2% in December, pushing the year-on-year growth rate for average hourly earnings to a paltry 1.7%. November's average hourly earnings gain of 0.4% was also revised down to 0.2%. Economists had been looking for a 2.2% year-on-year gain. So while, the unemployment rate is signaling a nearly fully-recovered labor market, the sluggish earnings growth continues to tell a decidedly different story. This will get noticed at the Fed. If wage growth starts to follow consumer prices lower, concerns about low U.S. inflation or even deflation will intensify. One data point won't likely change any minds on the FOMC at this point, but if the trend of lower earnings growth continues, the Fed in my view would be forced to defend their stable inflation mandate more forcefully.

By sector, we saw steady job growth for all major sectors. Business services led the way adding a net (+51K) jobs, education and health (+48K), construction (+48K), leisure and hospitality (+36K), trade (+23K), manufacturing (+17K), government (+12K), finance (+10K), and information (+2K). The breadth of these job gains across sectors suggest a sustainable labor market recovery remains in place as we enter 2015.

Bottom-line, another above-average employment report this month that caps a year of decent jobs gains and rapid declines in the unemployment rate. The December jobs report is probably good enough to keep the FOMC on course for a June 2015 liftoff date for the Fed funds target rate. The report also fits in well with our 3.3 percent growth outlook for the U.S. economy this year. However, keep an eye on sluggish average hourly earnings growth. Without stronger earnings gains, the U.S. economy won't be able to break free of its one step forward two steps back performance that has been all too familiar in this expansion. It also raises concerns that deflation pressures from the U.S. dollar appreciation, deflation in Europe, and lower oil prices, could become more entrenched. If pronounced it could force the Fed to defend their inflation mandate from the downside. Today's payroll report keeps deflation concerns on the table, but more data will be needed to make a firm determination. The US dollar increased modestly on the news, equities opened slightly lower, and the 10-year Treasury yield remained nearly flat at 2.01 percent.