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Instant Analysis of Today's Employment Report for December

Job Growth Exceeds Expectations in December; +292K vs. Consensus Exp. +200K
Unemployment Rate Steady at 5.0%
October and November Job Numbers Revised Up a Net +50K
Avg. Hourly Earnings Flat +0.0% (+2.5% y-o-y) Labor Force Participation Rises to 62.6%
Job gains improve for both manufacturing and service businesses in December
Business Services (+73K), Ed & Health (+59K), Leisure & Hospitality (+29K), Gov't (+17K)
Trade (+31K), Manufacturing (+8K), Information (+16K) and Construction (+45K)
Blow-Out Payroll report calms market panic, but doesn't change our view of Fed rate hikes
Market Reaction to Report; USD strengthens; S&P 500 +0.5%; 10-Yr Treasury +2 bps 2.16%

The U.S. job market engine continued to accelerate into the New Year. The U.S. labor market ended the year on a solid note, staunching this week's equity market panic. It truly was a strong December jobs report all-around. The only complaint one could possibly have was another month of flat average hourly earnings growth, though even here the year-on-year gain improved to 2.5% from 2.3%. One caveat to keep in mind- the warmer than normal December weather could have turbo charged the seasonally adjusted job gains on the month, painting a more flattering picture of the labor market than truly exists.

We expected a good number today, but the December payroll report at +292K exceeded our and consensus expectations for +200K jobs. There was also a bonus net upward revision of +50K jobs for October and November payrolls that brings the three-month average of monthly job creation to +284K. U.S. job growth is clearly back on track with monthly job gains well above the 12-month average monthly gain. This re-acceleration in job growth follows a brief slump in U.S. job creation that occurred in the Fall of 2015. Unfortunately, today's job report tells use very little about the direction of job growth from here. Slowing U.S. and global GDP growth in the fourth quarter and moderate 2.0% U.S. growth in the first half of 2016 will likely weigh on job creation in the months to come. But let's enjoy the moment.

There was widespread job creation across all major sectors and both goods producing and service producing employers added more jobs in December than November. Construction came in hot on better than normal winter weather (+45K). Business services added another (+73K), Education and health care (+59K), Trade (+31K), leisure and hospitality (+29K), and Government (+17K). Even manufacturers managed to add a better than expected (+8K) jobs last month.

The U.S. unemployment rate held steady at 5.0% as more people re-entered the labor force. The labor force participation rate increased to 62.6% in December from 62.5% in November.

Earning growth remained somewhat disappointing. Average hourly earnings growth was flat on the month +0.0%, though the year-on-year gain in average hourly earnings improved to 2.5%. We expect better earnings growth in 2016 as the U.S. labor market continues to tighten.

Bottom-line, it's hard not to cheer today's reading on the December U.S. labor market. However, I would caution not to get too carried away with the celebration. Slowing Q4 growth will put pressure on corporate earnings and cool the job creation engine in the months ahead. Moreover, the lack of snowfall and warmer than normal weather in December likely turbo charged job gains last month, but the cold and wet weather so far in January will ensure payback in the January payroll report. Finally, this jobs report doesn't change our view of Fed interest rate hikes for 2016. We still only see three

quarter point rate hikes in 2016 with the next one not coming until the second quarter (most likely April). The knee jerk reaction from the markets has been positive- a strengthening US Dollar, S&P500 (+0.5%) and 10-Yr Treasury up 1.5 basis points to 2.16 percent.