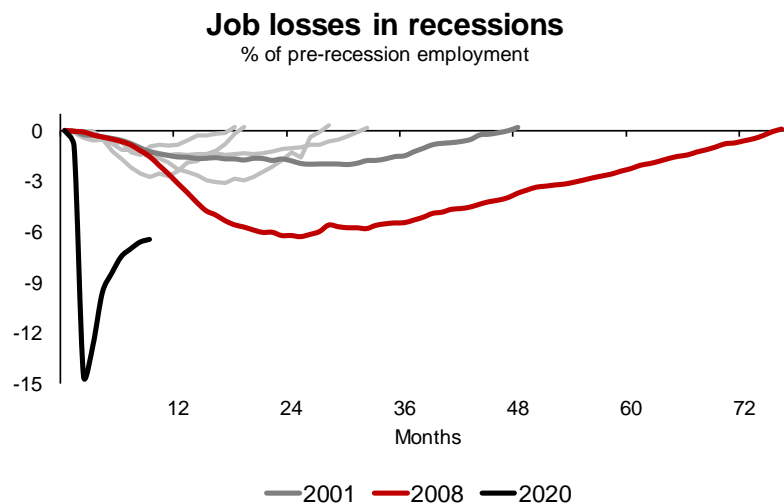


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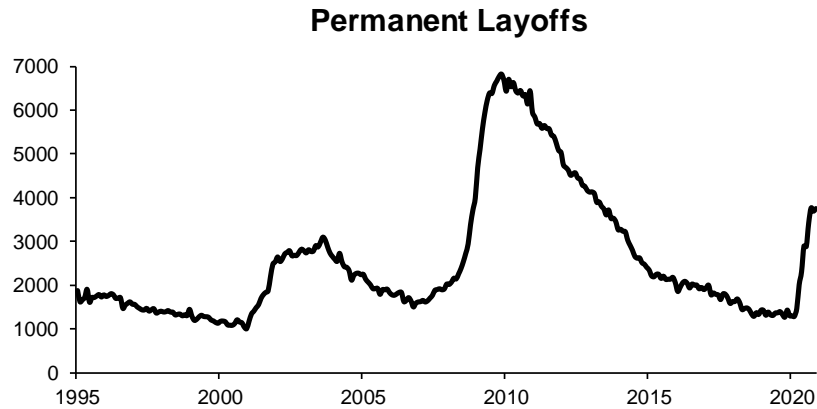
Disappointing US November job figures raise hopes of a deal on fiscal stimulus

- In November private payrolls grew by just 245k units, well below expectations. Employment stalled or decreased in the sectors most exposed to rising infections.
- The unemployment rate went down due to a reduction in labour participation, highlighting the possible long-term labour market consequences of the infection.
- With employment still more than 6% below the pre-crisis level, pressure is mounting for a fiscal stimulus bridging the gap before vaccines availability enables a growth pick up. Senate Republicans have opened to a compromise on a 900 US\$ package.
- At the same time, these numbers add to the case for Fed action on Treasury purchases.

In November the US economy added just 245k jobs, well below expectations of 470k. Public sector layoffs related to the end of the Census took out 100k jobs, but the bulk of the slowdown can be ascribed to the private sector, where job creation slowed down from 844k in October to 345k in November. The expected impact of the resurgence in COVID cases on the most exposed sectors was much stronger than expected: employment in retail trade dropped and basically stalled in leisure and hospitality. However, the job slowdown is more generalized: employment increased in 58% of the industries, compared with the over 70% figures seen in the previous three months. Employment is 6.5% below the pre-crisis level (roughly comparable to the trough seen in 2009) but remains around 20% lower in sectors like leisure and hospitality.



Unemployment rate edged down only marginally, to 6.7%, but this was mostly due to a reduction in the number of unemployed actively looking for a job, highlighting the long-term risks for the resilience of the labor market, especially for lower-skilled people. Encouragingly, however, permanent job losses appear to have peaked at a lower level than in the 2008 recession, and more in line with the 2001 one. This suggests that job creation may progress fast once a vaccine is rolled out.



Survey data published during the week provided mixed signals. The employment component of the ISM for services edged up in November and still points to payroll expansion, whereas that for manufacturing fell into contractionary territory.

The disappointing employment number may nudge Democrats and Republicans toward a substantial fiscal stimulus; the small uptick in Treasury yields following the new employment data is consistent with such an expectation. Over the last few days there have been encouraging signs: on Tuesday a bipartisan group of senators unveiled a proposal for a US\$ 908 bn package including support to small business a limited extension of unemployment benefits and aid to state and local governments. It is drastically lower than the US\$ 2tn advocated by the Democrats but a step ahead compared with the US\$ 500bn plan proposed by the Republicans. On Thursday Republican leader in the Senate stated that a deal is “within reach”, but there is no clarity on its size, as he is in favour of a much smaller (US\$ 300bn) plan.

Congress must agree by December 11 on an extension to the funding of federal activities in order to avoid a shutdown. That deadline seems a bit tight for the bill to include a sizeable fiscal package. This is more likely to be approved at the beginning of next year, before the new administration takes power (Jan. 21).

These numbers will also matter for the Fed decision. The risk of a sharper than expected deterioration in the economy around the turn of the year will reinforce the calls for action on QE; the FOMC will have to announce at the December 16 meeting whether to increase purchases or, more likely tilt its bond portfolio towards a longer duration. Longer term, a strong labour market would be a reason for the Fed to start tapering purchases, but numbers like the November ones make this prospect even more distant.

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