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US Non-farm payrolls: Good news is good news again!

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Employment change (thousands, unless otherwise noted)	Jan 24	Dec 23	Nov 23	Oct 23	Sep 23
Unemployment rate (%)	3.7	3.7	3.7	3.8	3.8
Avg. hrly earn all (Monthly % Chg)	0.6%	0.4%	0.4%	0.3%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.0%	0.1%	0.7%	0.0%	0.3%
Nonfarm employment	353	333	182	165	246
Total private	317	278	152	98	196
Goods-producing	28	33	36	-10	27
Construction	11	24	15	22	13
Manufacturing	23	8	25	-31	13
Priv. Serv providing	289	245	116	108	169
Wholesale trade	2.1	11	7	12	12
Retail trade	45.2	43	-43	1	18
Transp. & Warehousing	15.5	2	-11	-9	9
Information	15	18	17	-26	11
Financial	8	13	4	0	0
Business services	74	35	10	-5	-1
Temporary help	3.9	-17	-14	-23	-22
Education, health	112	84	110	77	81
Leisure, hospitality	11	38	10	57	27
Government	36	55	30	67	50
Federal Government	11	5	-1	8	6

Source: Haver Analytics

- What a way to start the new year as today's January jobs report, particularly the revisions released with it, show the US labor market has been much stronger in recent months than was previously believed. Employment rose to 353K, up from 333K the month prior. Net +126K revisions over the previous two months made the consensus expectation of 185K jobs gained incomparable. The annual benchmark revisions were also released today and showed the overall level of employment has 0.1% higher as of December 2023. The unemployment rate remained unchanged at 3.7%, whereas the consensus expectation was for 3.8%. Nominal wage growth shot up again to 0.6% m/m and the participation rate was unchanged 62.5%. The only blemish on the establishment report was the dip in total hours worked as average hours worked fell to 34.1 from 34.3 but the strength in wage and employment gains more than offsets that in terms of labor income growth.
- Nonetheless, this is an unambiguously a hotter labor market than Fed thought it had on its hands. With the focus more firmly on its employment mandate, good news is good news again and the FOMC will look at today's release

positively as it hopes to engineer a soft landing of the economy now that price stability is clearly in sight. But given that the labor market does not appear to be cracking under the weight of restrictive policy, it does not need to rush into this. Sequential inflation remaining around target will give the Fed the confidence it needs to decide when to start easing but the strength or weakness of the labor market will heavily influence the pace of easing. We expect the Fed to begin easing policy in the second half of this year but it should signal what it wants to do before that.

- What is the impetus behind this labor market strength? One guess is monetary policy transmission is working somewhat differently in this cycle and perhaps we are well past its peak impact. With US homeowners largely insulated from higher rates through mortgages of ten plus years, monetary policy is mostly working through its effect on firms and they have likely adjusted to the higher rate regime given the Fed's fair warnings over the past few years. Adding to this could be some countervailing features of monetary policy. With would be home buyers sitting on the sidelines with rates, perhaps more disposable income is being devoted to consumption and that dynamic is giving firms the confidence it needs to expand employment to meet future demand. Other explanations are how loose fiscal policy continues to support the economy and how investment in cost-saving technologies could now be allowing firms to more confidently add labor.
- Whatever the cause, there is clearly an uptick that reflects a firming underlying trend in the economy. In the past two months, cyclically sensitive sectors accounted for 60% of jobs created whereas in the five months prior to December, they contributed just 30% of new jobs. Prior to December, the story was that acyclical sectors -- government and healthcare -- were driving employment in the US. Underscoring this pivot is the wage growth numbers, which came in at a scorching 0.6% m/m. While average hourly earnings is not the Fed's most favored gauge for wage pressures -- ECI seems to be what they prefer and that came in much tamer for 23Q4 -- these gains will provide some caution that broader wage measures could accelerate in 24Q1 and bringing labor-sensitive parts of the inflation basket might not be a cake walk if productivity does not continue to be strong. The level of real wages is far below its trend and firms could be willing to compensate workers a bit more in what is obviously still a hot economy.
- Bad weather during the reference week could be the main culprit behind the weak average hours number given how broad-based it was across sectors. Also, month-to-month readings are volatile and since April, average hours were probably in a range consistent with their equilibrium and may have dipped just below that for the first time. We have also not seen a cycle like this where average hours rose so substantially above where they should be to help firms mitigate labor shortages.
- The volatile household survey was … well, volatile. Employment slipped slightly with 31K job losses, but population growth decelerated by more so the employment-to-population ratio moved up a notch to 60.2%. The headline participation rate was unchanged at 62.5% but prime-age participation increased a notch to 83.3%. The headline part-rate is actually very closely in line with the CBO's latest estimate of the trend participation rate. Combining that with John William's guess of unemployment rate gap being about closed, the household survey is painting a picture of labor market fairly close to in balance or perhaps slightly in excess demand.
- Overall, we walk away with an explanation for why 23Q4 consumption and growth was so strong. The labor market was stronger than we though as there was more income around to be spent.

Implications & actions

Re: Economic forecast — The January labor market data shows the economy has been better than expected and portends solid growth going forward. We expect the Fed will ease policy in the second half of 2024 to support its employment mandate now that price stability is within sight.

Re: Markets — Bond yields and the broad dollar increased after the release and have sustained increases so far.