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US Non-farm payrolls: Are we past the bottom?

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Employment change (thousands, unless otherwise noted)	Dec 24	Nov 24	Oct 24	Sep 24	Aug 24
Unemployment rate (%)	4.1	4.2	4.1	4.1	4.2
Avg. hrly earn all (Monthly % Chg)	0.3%	0.4%	0.4%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.4%	0.4%	0.3%	0.7%
Nonfarm employment	256	212	43	255	78
Total private	223	182	9	222	37
Goods-producing	-8	34	-53	15	2
Construction	8	8	-1	26	28
Manufacturing	-13	25	-52	-12	-26
Priv. Serv providing	231	148	62	207	35
Wholesale trade	-3.5	3.4	7.4	2.4	7
Retail trade	43.4	-29.2	8.8	7.3	-15
Transp. & Warehousing	9.6	2.5	-9.7	7.8	11
Information	10	4	-2	1	-8
Financial	13	11	5	6	7
Business services	28	9	-10	22	-47
Temporary help	5.3	6.2	-29.3	4.8	-23
Education, health	80	87	74	91	67
Leisure, hospitality	43	52	-8	61	9
Government	33	30	34	33	41
Federal Government	6	0	3	4	1

Source: Haver Analytics

- In case you forgot, the US labor market is still healthy. Payrolls came in at 256K, smashing expectations of the 165K expected by consensus and above last month's 212K gain. There were only 8K net negative revisions over the prior two months, and the three-month average job gain sits at 170K as of December, about 10-20K higher than where it was in the middle of 2024. Wage growth ticked down to 0.3% m/m, in line with consensus, and one notch lower in y/y terms to 3.9%. In the household survey, the unemployment rate ticked down to 4.1%, below the consensus and the prior month's reading of 4.2%, while the participation rate stayed steady at 62.5%. The Fed has been less focused on the job market recently and today’s reason gives them more reason to put their attention elsewhere. The labor market has been volatile to close out 2024, but the latest data makes it clear that the trend in cyclical employment is solid. The FOMC is more concerned about seeing inflation progress being sustained, and seeing where trade policy actually goes. We expect they will be on hold this month.

- The market clearly agrees with that take with the next Fed rate cut priced around the middle of this year. After the dot plot last month, expectations for a prolonged pause have come firmly rooted.
- The strength in payroll job games came from private services which gained by 231K in the month. Retail and leisure and hospitality added 86K jobs together during the holiday season. There might be some extra seasonal boost in those sectors but would only be modestly overstating service sector gains. Non-cyclical sectors (healthcare and government) added 103K jobs, in line with the average since June. However, there was a soft spot in the goods sector which shed 8K jobs on net, including 13K jobs lost in manufacturing. Employment in manufacturing has slowed down in the second half of 2024. The Boeing strike and hurricane impacts exaggerates some of the decline, but there is a broad-based slowdown even prior to those hitting. That could be evidence that rising trade policy uncertainty has already started to impact the economy.
- Wage growth was came in at 0.3% but the wages in the payroll survey are still suffering from a lot of compositional biases under the hood lingering likely from the various idiosyncratic events hitting the job market over the past three months. Wage growth in the retail and transportation and warehousing sectors actually dipped in month-over-month terms, likely reflecting a shift in the type of workers added for the holiday season and one also sees that in the average hours worked for those sectors. The Fed will be likely be putting less weight on the average hour wage number than usual and looking to other compositionally adjusted wage surveys.
- The household survey also showed a strong improvement in employment, rising by 478K in the month, but in on three-month average basis it shows -47K. That was enough to push the jobless rate lower, and suggest the job market ended the year at about balanced with estimates of the natural rate of unemployment in the low 4s. The unemployment rate has remained steady at the 4.1-4.2% range since June. Labor supply also looks strong and steady with prime-age participation at 83.4%.
- The big question now for the job market now is, are we past the bottom? Across a range of labor market data -- the household survey, payroll employment and JOLTS -- we have not seen much further deterioration in job market in recent months and revisions have become more modest. At the same time, growth remains solid and inflation a little sticky, although the latter driven by mostly idiosyncratic forces. While the trade war and inflation are top of mind for Powell and his team, they will be seriously thinking about whether the labor market is still cooling or just steadying into a sideways trend, and whether more support to the economy is even needed.

Implications & actions

Re: Economic forecast — We expect the Fed will be on hold until March with inflation being their focus from a data point, but the background noise on trade policy influencing their views as well. The Fed is in a difficult spot in terms of not knowing what exactly lies ahead and that is further complicated because a potential trade war acts as initially as a supply shock, disrupting the economy and slowing growth, but also raising prices.

Re: Markets — Bond yields and the dollar moved higher on today's upside surprise in payrolls and have generally sustained higher levels.

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