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February 3, 2023

US Labor market starts the new year with a bang

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Employment change (thousands, unless otherwise noted)	Jan 23	Dec 22	Nov 22	Oct 22	Sep 22
Unemployment rate (%)	3.4	3.5	3.6	3.7	3.5
Avg. hrly earn all (Monthly % Chg)	0.3%	0.4%	0.4%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	1.2%	0.1%	0.1%	0.4%	0.6%
Nonfarm employment	517	260	290	324	350
Total private	443	269	228	299	344
Goods-producing	46	43	41	57	44
Construction	25	26	19	17	16
Manufacturing	19	12	14	37	26
Priv. Serv providing	397	226	187	242	300
Wholesale trade	11	11	0	16	8
Retail trade	30	1	-46	-6	-11
Transp. & Warehousing	23	13	-37	20	10
Information	-5	-5	13	3	3
Financial	6	11	11	18	2
Business services	82	39	0	36	48
Temporary help	26	-41	-49	10	11
Education, health	105	76	95	85	80
Leisure, hospitality	128	64	123	61	139
Government	74	-9	62	25	6
Federal Government	5	0	2	4	2

Source: Haver Analytics

- The US labor market started the new year with a bang, as 517K jobs were created, well above the consensus expectation of 188K, and miles above the roughly 100K mark that the Fed would like to see in order to prevent a further tightening in the labor market. A 71K upward revision to the prior two-month job tally added to the upside, and hiring was fairly widespread across industries in January. The unemployment rate fell to 3.4% (vs. the consensus for a tick increase to 3.6%). While average wages rose by a moderate 0.3% m/m as expected, and a tamer 0.2% for production workers, this is clearly a tight labor market, leaving the Fed thinking it has more work to do in order to cool activity and achieve on-target inflation in the year ahead.
- The stunning gain in jobs was led by the leisure and hospitality sector, where headcounts still sit 495K below pre-pandemic levels. That hiring may have been in response to December's job vacancies, which showed that sector seeing a big uptick in unfilled positions. With hiring tilted towards lower value added services, it isn't surprising that total average wage growth for production workers was a modest 0.2% m/m, and only a tick faster for all employees.

Wages for non-supervisory workers in goods-producing sectors were strong (+0.8% m/m), while services were weak (+0.1% m/m).

- Extending recent strength, the education and health care industry was the second largest contributor to employment growth. Hiring in that sector could continue to be supported by investment from state and local governments that are flush with cash. Headcounts increased in the interest-sensitive construction sector, and even real estate eked out a small gain. These industries were understaffed a year ago, so the hiring we're seeing now might not be indicative of a pickup in demand for their output. Moreover, employers could be more reluctant to let staff go given the challenges faced with recruiting during the pandemic.
- Employment growth resumed in retail trade and transportation, despite flagging consumer demand for goods. There was little sign of layoff announcements in tech and media translating into this data, with the information industry being the only one to shed a modest number of jobs. We'll likely start to see the layoffs materialize in the data in the coming months, as some are announced pre-emptively, and the survey week for the payrolls data is mid-month. Moreover, job openings are still elevated in professional services, suggesting that some of the laid off employees will be able to find work elsewhere relatively quickly.
- In a sign of underlying strength, aggregate hours worked were up by 1.6% m/m in goods sectors and 1.1% m/m in services. The strength was widespread across higher and lower value-added industries, and suggests a solid start to the year for GDP tracking.
- While the household survey showed an outsized gain of 894K jobs, that mostly reflected the introduction of new population estimates for January by the BLS, as excluding that distortion, employment would have risen by only 84K. However, there was no impact from the census changes on the overall unemployment rate. The release also included updates to seasonal factors. Some have questioned the extent to which this may have boosted the establishment survey employment reading, as in non-seasonally adjusted terms, 2.5mn jobs were lost. Looking back at prior years, that's not an unusually large loss of jobs for January in the raw data, casting doubt on the thesis that seasonal adjustment was to "blame" for the outsized headline payrolls gains in adjusted terms.

Implications & actions

Re: Economic forecast —While we're sticking to our call that decelerating inflation could limit the Fed to a further quarter point hike, the momentum in employment obviously raises the risk of a follow-up move in May, and underscores our expectation that rate cuts will be put off until 2024. GDP growth is likely off to a better start to the year than we expected, given the advances in hours worked in high value-added sectors.

Re: Markets — Yields jumped, and the USD appreciated following the upside surprise as it puts pressure on the Fed to tighten more aggressively and put off any rate cuts for longer.