CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

February 7, 2025

US Non-farm payrolls: More reason to be patient

by **Ali Jaffery** ali.jaffery@cibc.com

Employment change (thousands, unless otherwise noted)	Jan 25	Dec 24	Nov 24	Oct 24	Sep 24
Unemployment rate (%)	4.0	4.1	4.2	4.1	4.1
Avg. hrly earn all (Monthly % Chg)	0.5%	0.3%	0.4%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.2%	0.0%	0.4%	0.7%	0.0%
Nonfarm employment	143	307	261	44	240
Total private	111	273	244	-1	208
Goods-producing	0	-2	28	-50	32
Construction	4	13	6	1	30
Manufacturing	3	-12	20	-50	0
Priv. Serv providing	111	275	216	49	176
Wholesale trade	2	12.9	5.1	6.1	7
Retail trade	34.3	36.3	-13.5	-6.6	14
Transp. & Warehousing	1.1	21.5	27.7	-9	7
Information	2	16	5	-7	0
Financial	7	19	16	3	5
Business services	-11	31	37	-34	-16
Temporary help	-12.4	-3	30	-35.4	-18
Education, health	61	82	73	87	98
Leisure, hospitality	-3	49	54	9	51
Government	32	34	17	45	32
Federal Government	9	6	-2	3	4

Source: Haver Analytics

- Job gains were a little soft in January, but a big picture view on the US labor market suggests it remains on very solid footing. Payrolls came in at 143K in January, below expectations of the 175K expected by consensus but that also comes on the heels of a scorching 307K gain in December. There were +100K net revisions over the prior two months and the three-month job gain trend has been revised up from 170K to 204K as of December. Today's report was also accompanied by the annual revisions to the establishment survey. The level of employment is slightly lower as of December (-0.4%) and the average monthly job gains in 2024 was revised down from 186K to 166K. Wage growth jumped to 0.5% m/m, two notches above consensus, but that likely partly reflect a compositional distortion because average hours worked dipped to 34.1 from 34.2. The household survey looked strong, with the participation rate increasing a notch to 62.6% and the jobless rate coming down a notch to 4.0%, both beating expectations by a tick. Today's report supports the Fed's pause – the job market was a bit weaker over the past year than the Fed previously understood but the recent momentum looks solid. The FOMC's focus will remain on inflation and the net effect of fiscal, immigration and trade policies on the economy. The market continues to price in about 1-2 cuts this year and broadly agrees with that take.

- The strength in payroll job games came from healthcare and government accounting for over two-thirds of the gain. Cyclical sectors were driven entirely by retail sales, beyond that employment was fairly subdued after a strong prior two months. Motor vehicle and parts employment saw net job losses of 9.7K in the month or 15K net job losses since the election. That could reflect growing uncertainty about Trump's tariffs with threats issued against Canada and Mexico in late November and pressure building throughout those months as we saw.
- Wage growth was hot but that likely reflects a distortion from wild fires and severe winter weather, which depressed average hours worked. A compositionally unbiased wage figure would likely show a more tame wage figure. That being said, the ECI and unit labor cost growth were warm in Q4. The Fed will place more weight on those readings and favor holding rates.
- New population estimates were incorporated into the household survey and boosted the level of the civilian non-institutional population by 2.9 million or by 1%. That was widely expected, given the wide ranging debate around population undercounting, in part because of illegal immigration. The BLS piles on these changes to January of the next year, distorting the January employment gain in the household survey. Stripping out the population change, the increase in employment in the household survey was 234K. The bottom line from the household survey is job market looks healthy with very strong prime-age participation and low unemployment.

Implications & actions

Re: Economic forecast — We expect the Fed will be on hold through the first of this year, waiting for inflation progress and more clarity on policy.

Re: Markets — Bond yields moved a bit higher while and the dollar moved initially rose but has since retraced much of that gain.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC