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US Non-farm payrolls: Solid end to 2023

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

Employment change (thousands, unless otherwise noted)	Dec 23	Nov 23	Oct 23	Sep 23	Aug 23
Unemployment rate (%)	3.7	3.7	3.8	3.8	3.8
Avg. hrly earn all (Monthly % Chg)	0.4%	0.4%	0.3%	0.3%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.1%	0.6%	0.0%	0.3%	0.6%
Nonfarm employment	216	173	105	262	165
Total private	164	136	44	199	114
Goods-producing	22	30	-12	21	28
Construction	17	6	27	9	30
Manufacturing	6	26	-38	11	-2
Priv. Serv providing	142	106	56	178	86
Wholesale trade	6	5	8	16	3
Retail trade	17	-24	17	2	-6
Transp. & Warehousing	-23	-5	-28	12	-27
Information	14	15	-12	-6	-22
Financial	2	1	-8	0	1
Business services	13	-19	-26	-17	8
Temporary help	-33	-22	-42	-22	-10
Education, health	74	109	84	86	105
Leisure, hospitality	40	12	25	76	8
Government	52	37	61	63	51
Federal Government	7	2	7	5	9

Source: Haver Analytics

- Today's December jobs report showed that the US labour market ended 2023 on solid note. Employment rose a healthy 216K, up from 173K the month prior, and above the 175K consensus was expecting. However, there were 71K in net negative revisions over the previous two months. The unemployment rate remained unchanged at 3.7%, whereas the consensus expectation was for 3.8%. The participation rate moved down three ticks to 62.5% and nominal wage growth stayed hot at 0.4% m/m for the second month in a row. Overall, the US labour market does remain fairly tight but with hiring concentrated in a few sectors and labour supply easing off a bit, most of the heat has clearly come off. That does not imply policy easing is imminent but with Powell emphasizing the importance of both the employment and price stability mandate as well as the risk of holding on too long, the Fed has room to ease policy in the second half of 2024 given the progress on core inflation.
- Employment in December was more broad-based across sectors. Government and healthcare hiring accounted for about half of all payroll jobs gained in the month, down from an average of 90% over the previous six months. The

goods sector accounted for about 10% of jobs gained and the remaining 40% came from the private services sector (excluding healthcare). Of the latter category, most gains came from leisure and hospitality and a bounce back in retail hiring. Nonetheless, the main takeaway from the composition of employment is that job creation continues to emanate from largely acyclical sectors. And these sectors are likely overstating the strength of hiring which the Fed will be conscious of that while assessing the labour market outlook.

- The payroll survey showed wage growth stay hot at 0.4% for the second month in a row but average weekly hours worked ticked down a notch to 34.3. The strength in wage growth was driven by private sectors and was not broad-based, with about half of private service sectors seeing wage growth decelerate in the month. Overall, the hot wage growth numbers likely reflects past changes in inflation, which we have found explains most of the increase in wages experienced this cycle and we expect will moderate going forward given inflation has come down. Nonetheless, we expect the Fed will continue to place more weight on the Atlanta Fed Wage tracker and the Employment Cost Index than these wage numbers.
- The volatile household survey showed a weaker picture of the labour market. The employment-to-population ratio dipped three ticks to 60.1% as the participation rate dropped by the same amount to 62.5%. Powell has emphasized the strength of labour supply and today's decline will catch the FOMC's attention, though most of this does not come from the prime-age category which only ticked down by one notch to 83.2%. Employment in the survey showed a decline of 122K on a three-month average basis, suggesting that despite the volatility of recent readings, the household survey is pointing to more softening than is being indicated in the payroll survey.

Implications & actions

Re: Economic forecast — The December labour market data shows a fairly tight labour market but with inflation persistence less of a challenge and downside risks to activity and the labour market, the Fed has room to ease policy in the second half of 2024.

Re: Markets — Bond yields and the broad dollar initially increased after the release but have since retraced their rise.

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