ECONOMIC UPDATE

REGIONS

February 7, 2025

January Employment Report: A Less Flattering, But More Plausible, Picture

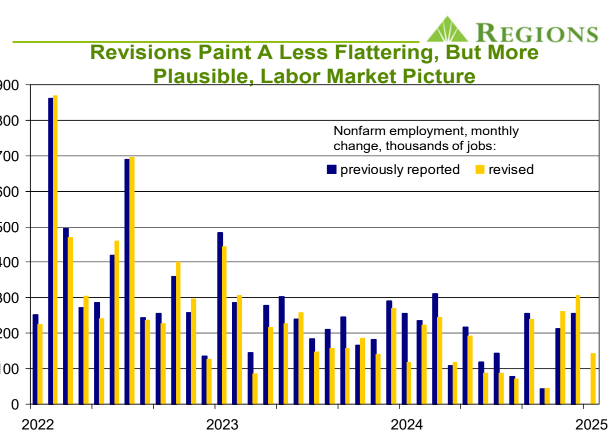
- Nonfarm employment rose by 143,000 jobs in January; revised data show nonfarm employment rose by 1.996 million jobs in 2024
- Average hourly earnings rose by 0.5 percent, while aggregate private sector earnings rose by 0.3 percent (up 5.0 percent year-on-year)
- The unemployment rate fell to 4.0 percent in January (4.011 percent, unrounded); the broader U6 measure held at 7.5 percent

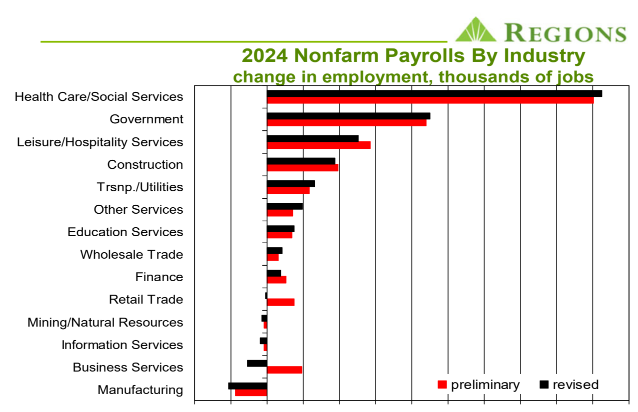
Total nonfarm employment rose by 143,000 jobs in January, less than we and the consensus forecast anticipated, with private sector payrolls up by 111,000 jobs and public sector payrolls up by 33,000 jobs. While average hourly earnings rose by 0.5 percent, this is strictly a function of a two-tenths of an hour decline in average weekly hours as opposed to being a sign of reaccelerating wage pressures. The unemployment rate came in at 4.0 percent in January, matching our below-consensus forecast, while the broader U6 measure posted at 7.5 percent. There are many moving parts to the January employment report, which incorporates: 1) the results of the annual benchmark revisions to the establishment survey data on nonfarm payrolls, hours, and earnings; 2) revisions to the BLS's "birth-death" model used to account for firms coming into/going out of existence between benchmark periods; and 3) revised population controls to the household survey data based on the recently released Vintage 2024 population data, which showed considerably greater international in-migration over the past few years than Census had previously been reporting. On balance, the revised data paint what we think to be a more plausible portrait of labor market conditions, with job growth slower in 2023 and 2024 than previously reported and household employment more adequately, but likely still not fully, capturing the effects of greater foreign in-migration. In other words, the revised data do not change our assessment of labor market conditions, in part because we've argued since back in 2023 that nonfarm job growth was being overstated, and we have for some time argued that household employment was being undercounted. The trend rate of job growth has clearly slowed, but thus far the offset has been that the rate at which workers are being laid off remains a bit below pre-pandemic norms. Unless and until the latter changes, we'll maintain a constructive view of the labor market.

The annual benchmark revisions, a process by which the results of the monthly establishment survey are benchmarked to the Quarterly Census of Employment and Wages, a comprehensive accounting of the payroll tax returns virtually all firms are required to file, resulted in the level of nonfarm employment as of March 2024 being reduced by 589,000 jobs, less harsh than the BLS's initial estimate of 818,000 jobs and much closer to our original expectations of a hit between 600,000-650,000 jobs. The net result of the various revisions is that nonfarm payrolls are now shown to have risen by 2.594 million jobs in 2023 and by 1.996 million jobs in 2024, or by 419,000 fewer jobs in 2023 and by 236,000 fewer jobs in 2024 than had been reported. At the same time, job growth in 2024 was even more concentrated amongst health care/social assistance, leisure and hospitality services, and government than previously reported. The revised data show these three industry groups accounted for 81.5 percent of total nonfarm job growth in 2024. One important point on the revised population controls is that the levels of the labor force and of household employment are not comparable from one year to the next, meaning there is no signal in the sizable level increases seen in the January data.

With the turn of the year, the BLS has updated the seasonal factors used to produce the estimates of the seasonally adjusted data. It does appear that the January seasonal factors are not as supportive as in years prior, as the 1.82 percent decline in private sector payrolls in January is slightly smaller than last January's decline and well smaller to those of prior years, yet the boost from seasonal adjustment yielded a much smaller January job growth number than was the case last year. That said, less holiday season hiring than is typically the case led to a smaller than normal January decline in retail trade payrolls, so the reported increase of 34,300 jobs on a seasonally adjusted basis helps offset less generous seasonal adjustment elsewhere in the data.

There were 573,000 people not at work during the January survey period due to adverse weather, while another 1.175 million worked only part-time hours rather than their normal full-time hours. Though these figures are from the household survey, they nonetheless help account for the drop in average weekly hours reported in the establishment survey. A point most people seem to miss, however, is that firms do not report average hourly earnings in the monthly establishment survey but instead report the number of workers, the number of hours worked, and total payroll spend. Hence, a big drop in hours worked will mechanically push up the ratio of total payroll to total hours, i.e., "average hourly earnings." As such, anyone reading into the reported 0.5 percent increase in this metric any implications for the path of the Fed funds rate will be way off base.





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