The Daily Dish

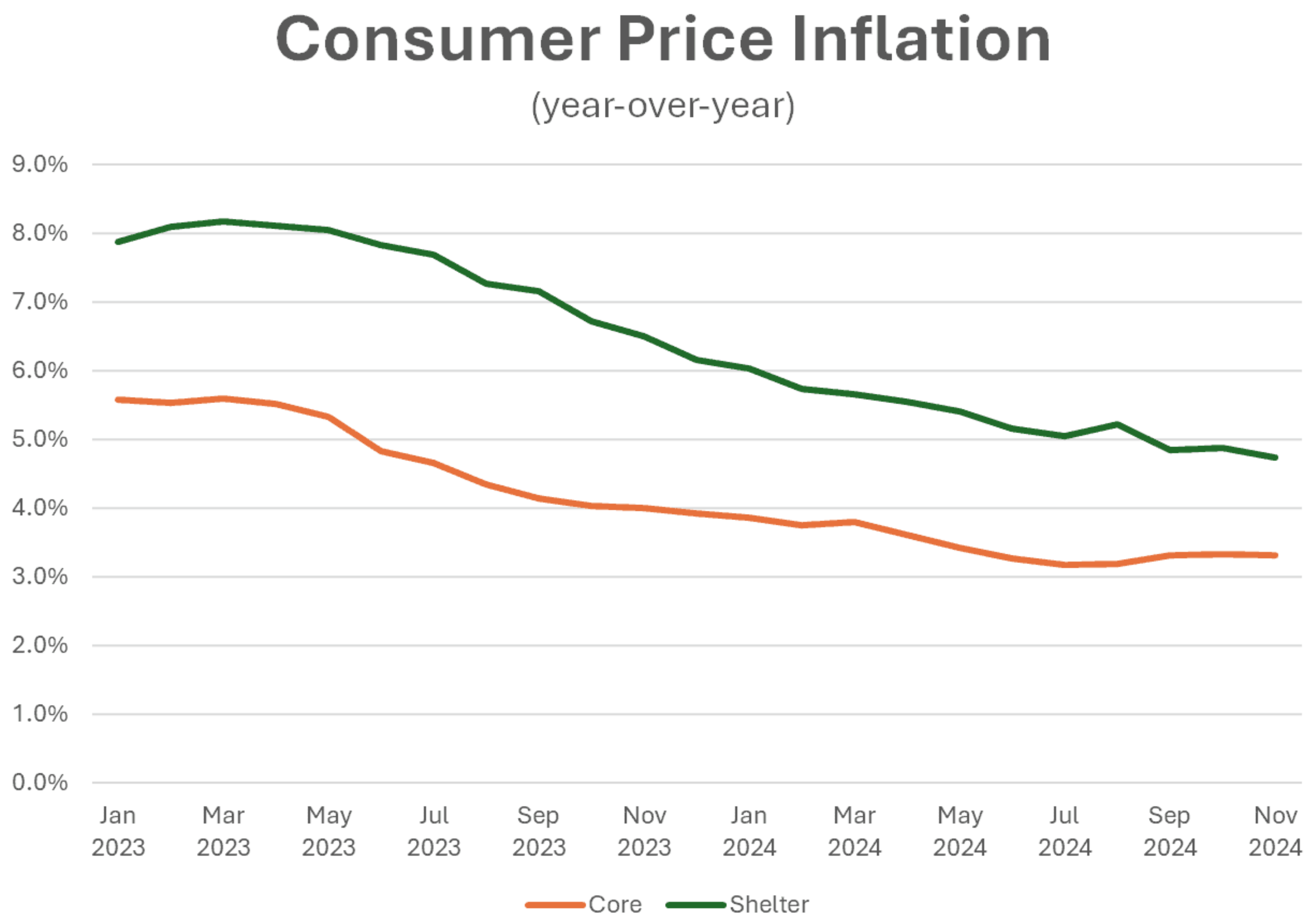
December Jobs and the Outlook

DOUGLAS HOLTZ-EAKIN | JANUARY 13, 2025

AAF's Fred Ashton summarized Friday's Bureau of Labor Statistics Employment Report for December thus:

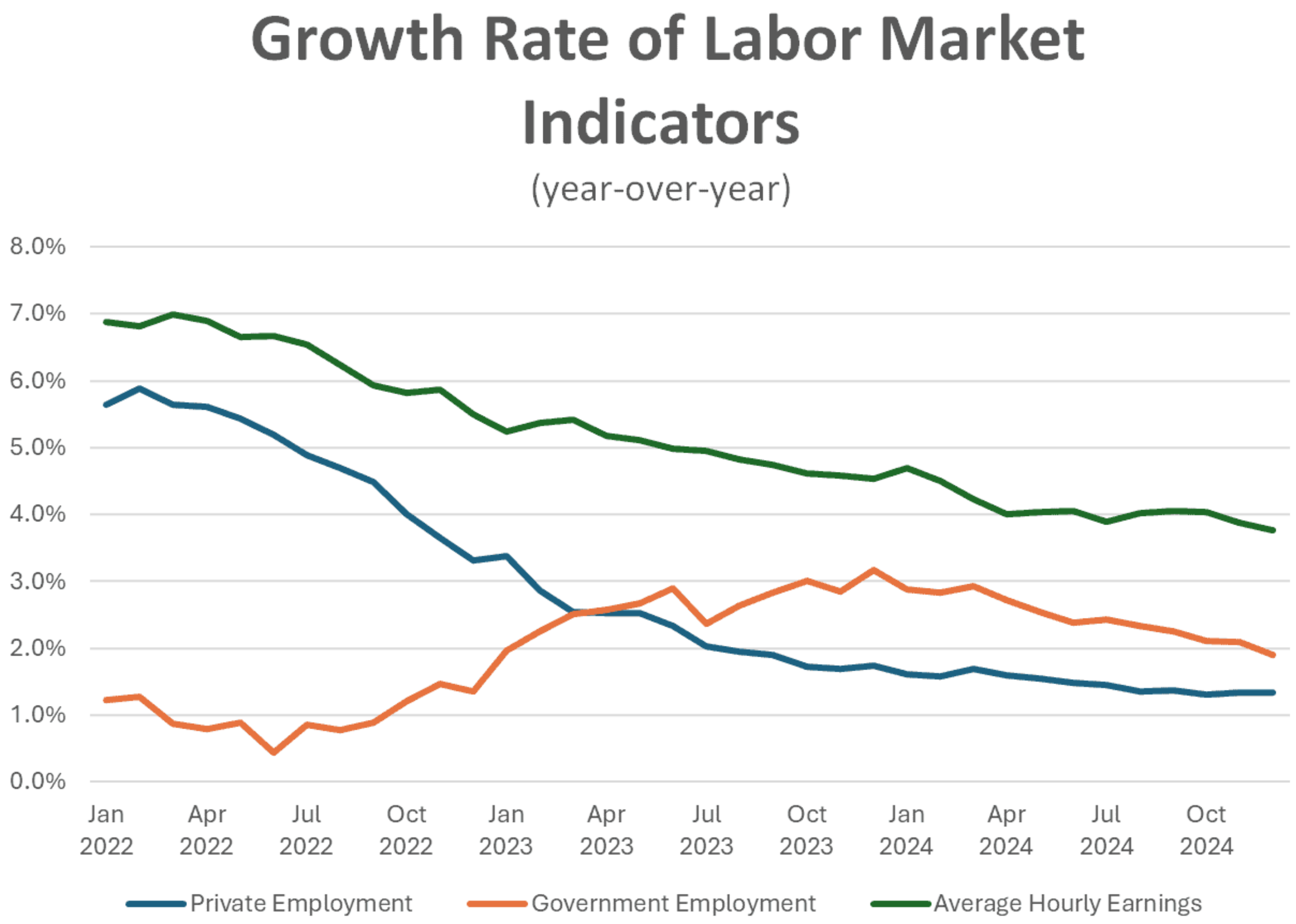
> *Job growth was much stronger than expected in December as employers added 256,000 new hires to their payrolls. The three-month average held steady at 170,000 for the second-straight month, the highest since May. For the year, employers added 2.2 million workers. The unemployment rate ticked down to 4.1 percent from 4.2 percent in the prior month. Average hourly earnings increased 0.3 percent for the month for a 12-month gain of 3.9 percent. After the Fed's hawkish rate cut in December, the muted wage gains and strong topline number in the most recent jobs report could afford the Fed some time before its next rate adjustment.*

That's seems dead-on. Moreover, looking at the inflation data, there is no impetus for the Fed to cut rates. The graph below shows year-over-year inflation as measured by the Consumer Price Index (CPI) core and shelter indices.



Notice that core inflation – the best single indicator of future overall inflation – has remained stuck at 3.3 percent over the past six months. This is true despite the fact that the Fed's old nemesis, shelter inflation – one-third of the overall CPI – has finally shown some signs of slowing and downshifted by 0.7 percentage points in the past six months to 4.7 percent. By definition, that means the remainder of the core has accelerated somewhat over the past six months. No cause for alarm bells, to be sure, but also no particular impetus for further easing.

Past the top lines, the labor market is also interesting. Since the Fed began its tightening cycle in 2022, the year-over growth in private-sector employment (blue line) has steadily fallen and is now a bit above 1 percent – close to the growth of the labor force. In contrast, the big employment numbers over the past two years have been driven by government jobs (orange line); that growth rate rose in 2023 and has slowed only to 2 percent in 2024. In short, market-driven demand for labor has responded exactly as the Fed would have hoped.



Finally, the green line shows year-over-year growth in the average hourly earnings of production and nonsupervisory workers. It, too, has slowed steadily and is now running at roughly 4 percent. This is perfectly consistent with a 2-percent inflation target and 2-percent productivity growth.

In sum, the economy is in good shape. Indeed, if the Fed's inflation target were 2.5 or 3.0 percent, there would be parades on Constitution Avenue and celebrations in every regional Federal Reserve Bank. Alas, the outlook is hard to discern because it is littered with the risks from deportations, immigration policy, debt ceiling showdowns, government funding hurdles, tariffs, tax policy, and federal red ink that will be large, too large, or way too large.