The Daily Dish

# January Jobs

GORDON GRAY | FEBRUARY 3, 2023

The December jobs report came in close to expectations, with strong employment gains and tempered earnings growth. By the lights of the U3, U6, and other data, the labor market remains incredibly tight, but decelerations in earnings growth will give comfort to the Federal Reserve and market observers. Employers in January added 223,000 jobs, with private-sector payrolls gaining 220,000 jobs, while the unemployment rate fell to 3.5 percent. The labor force participation rate rose to 62.3 percent.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand decreased 0.5 percent in December;
- The Consumer Price Index decreased 0.1 percent in December;
- Real average hourly earnings increased four cents from November to December;
- Orders for durable goods (including defense and aircraft) increased 5.6 percent in December;
- New home sales increased 2.3 percent in December;
- The Price Index of U.S. imports increased 0.4 percent in December;
- ISM Services Index decreased 6.9 percentage points to 49.6 percent in December;
- ISM Manufacturing Index decreased 1.0 percentage points to 47.4 percent in January;
- Consumer Confidence Index decreased 1.9 points from 109.0 to 107.1 in January;
- ADP reported private sector employment increased by 106,000 jobs in January.

## GORDON'S GUESSTIMATE: JANUARY JOBS

At some point in the future, the economy will shrink, and payrolls will fall. It will not, however, happen this morning. Last month, the Bureau of Labor Statistics released an employment report that was pretty much down the middle for market observers. Payroll growth was healthy, while average hourly earnings growth slowed. Given the volatility in monthly data, we shouldn't lean too heavily on that snapshot, but it's nevertheless a relatively pretty picture given the aggressive tightening of the Fed in the face of historic inflation. It *looks* like what observers want to see: slowing inflation without breaking the labor market.

To be sure, the housing market has been something of an ablative heat shield as the Fed manages its "landing" of an overheated economy. It is very much a key channel of the Fed's tightening, and it has been measurably affected by the pace and scale of recent rate hikes. The labor market is further down the chain, but for the moment appears essentially imperturbable.

There has been a notable downshift in the pace of hiring compared to last year, as well there should be given that the unemployment rate is bouncing around 50-year lows. The 200,000-plus monthly job growth seen over the last five months is indeed, as characterized by the Federal Open Market Committee, “robust.” And there is little to no evidence that this robust pace will downshift today.

There have been conspicuous layoffs announced in certain industries and large firms, but these do not appear to have moved the unemployment insurance rolls. While seasonal factors could be shining a more favorable light on this series than otherwise at the moment, it certainly is not indicating a surge in layoffs that would materially alter the course of national employment trends. The most recent employment report also reflected renewed harmony between the household and establishment surveys.

The ADP survey may suggest some downside risks from the recent hiring trend, but that revised series has undercounted private payrolls by an average over 49,000 workers and has undercounted payrolls in four out of the last six months.

This guesstimator is assuming a payroll gain of 215,000 jobs. This gain would pull the U3 down to 3.4 percent – for the first time since 1969. Hourly earnings should increase 9 cents for a 4.3 percent yearly gain.