

# Dutta's Economic Daily

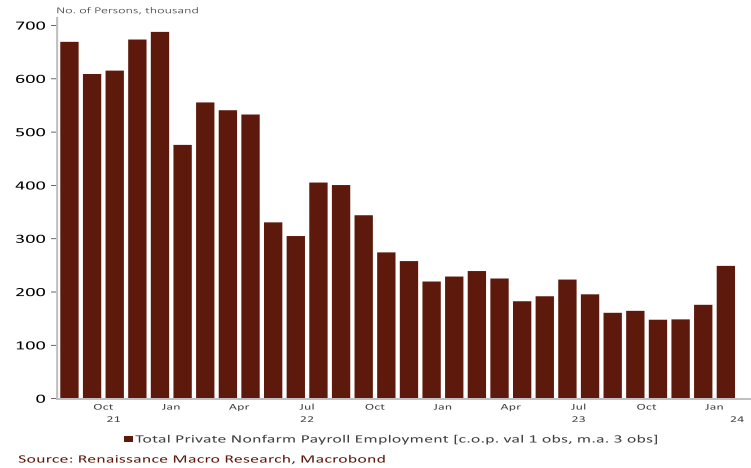
## Solid jobs growth in January

Friday, February 02, 2024

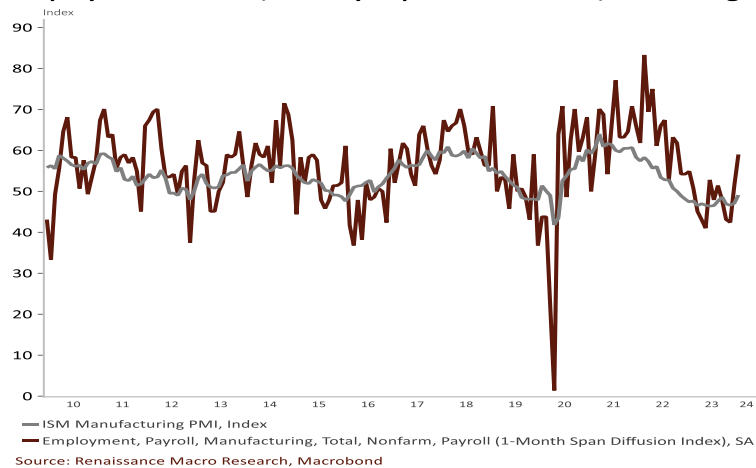
### January report was somewhat unusual

- Talk about a fluky report! While January's employment data are filled with oddities, I think the main story is that, at the margin, it reduces the sense of urgency for the Fed to ease policy. The economy is solid and as a result, the Fed can take its time to recalibrate policy. Inflation is slowing, but growth is holding up.
- On the surface, the employment report was unbelievably strong. In January, nonfarm payrolls advanced 353,000; the prior two months were revised up by 126,000. Over the last three months, private nonfarm payrolls have advanced 249,000 on average per month. That's the fastest pace since November 2022. I put the most weight on the pace of Establishment Payrolls on jobs day.
- The breadth of employment, a concern in recent months, was solid too; the payroll diffusion index rose to 65.6%, the highest since January 2023. Manufacturing payrolls advanced 23,000, climbing for the third consecutive month. Temporary-help employment, which has been languishing for over a year, rose by 3,900 in January, the first increase since March 2022. Retail trade employment rose 45,200 following growth of 43,200 in December.
- While payroll growth was firm, the workweek was atrocious. The average workweek fell 0.2 hours after a 0.1 decline in December to 34.1 hours, the lowest since March 2020. This is a recession-like level on the workweek. Total hours worked are down 0.3% annualized over the last three months. I do wonder if the weather was a factor behind the drop. Lots of folks were off the job due to bad weather. In January, 588,000 folks were "employed but not at work" due to bad weather. This was the highest tally for January since 2011.

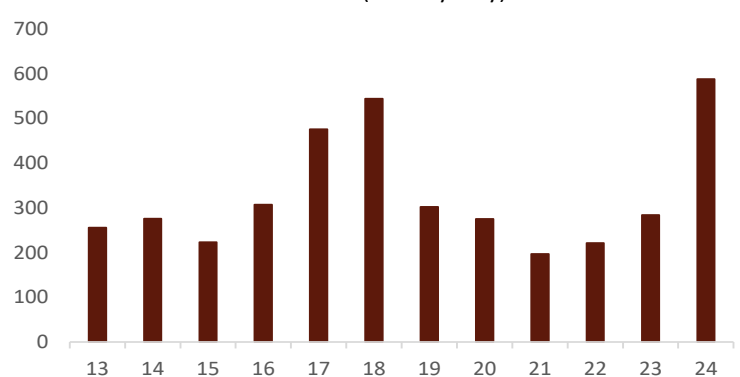
**Solid private jobs growth**



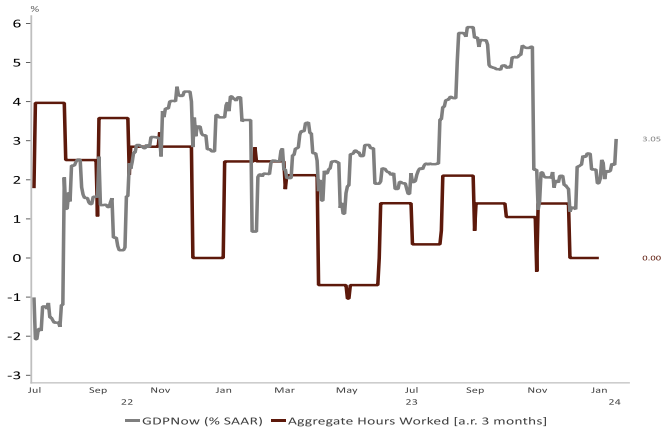
**Employment breadth, a worry in previous months, was strong**



**Lots of folks were off the job in January relative to normal**  
 Not at Work Due to Bad Weather (January only)

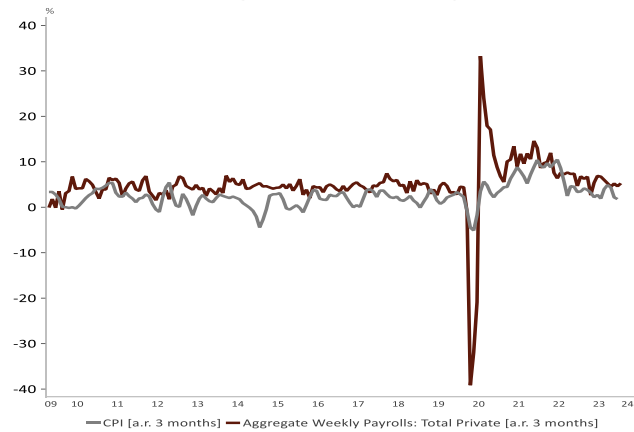


**Productivity up**



Source: Renaissance Macro Research, Macrobond

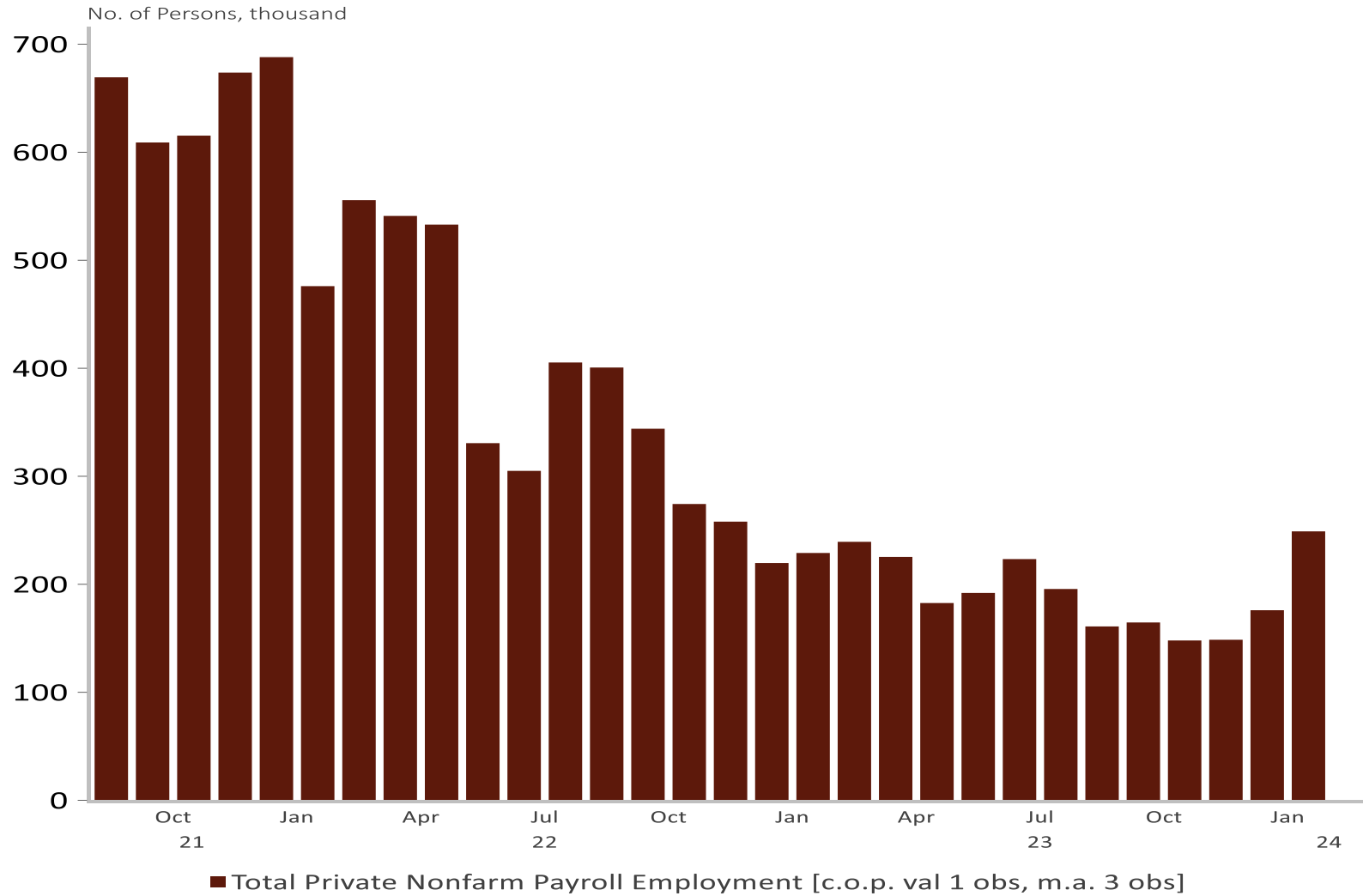
**Real incomes are rising due to modest CPI growth**



Source: Renaissance Macro Research, Macrobond

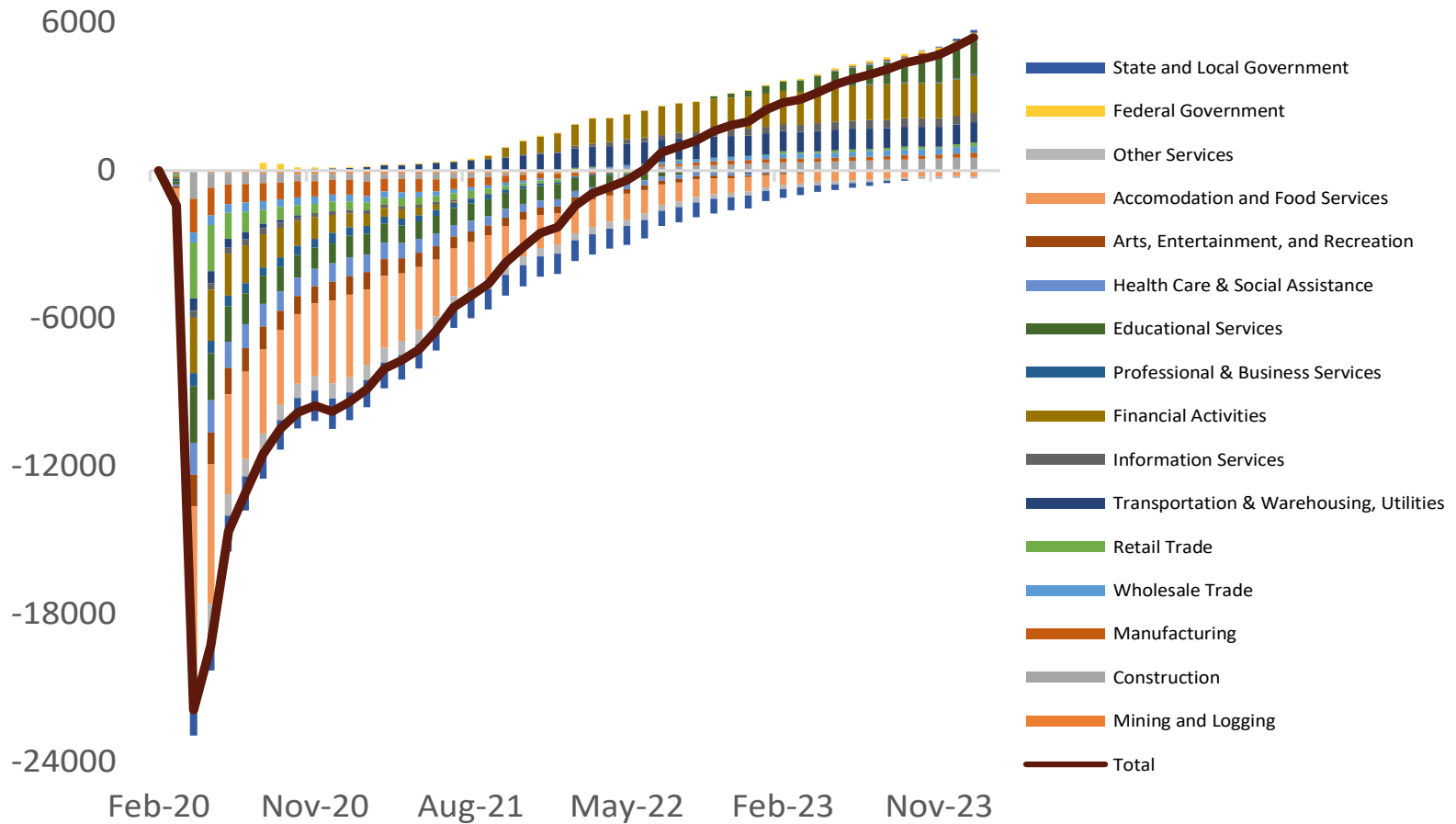
- The drop in the workweek likely had a mechanical impact on average hourly earnings, which climbed 0.6% after 0.4% growth in December. Over the last three months, average hourly earnings are up 5.4% at an annual rate. This is inconsistent with cleaner measures of wage growth like the Employment Cost Index, which show cooling labor cost pressure. If I take the data at face value, I see total hours worked down, the economy expanding, which implies growth in labor productivity and low unit labor costs. It's a good backdrop for corporate earnings.
- At any rate, taking the sum product of jobs, the workweek and hourly earnings shows growth of 0.2% over the month, but 5.2% SAAR over the last three months. Given the weak growth in headline consumer prices, it is safe to conclude that real incomes are expanding by roughly 2.5 to 3.0 percent, which sets the table for reasonably solid consumers' spending.
- In the Household Survey, the unemployment rate stood at 3.7%, flat against the prior month. There is no Sahm Rule trigger in the national data; recession risks are low. Note that quoting month-over-month changes in Household Employment levels makes little sense in January because the BLS updated population controls for the series. The prime-age employment rate improved to 80.6, a 0.2ppt increase from December – a welcome relief.
- Bottom-line: No need for Powell to feel like he made a boo-boo by calling off March, but not enough here to change the overall story either. The Fed be recalibrating policy this year.

## Solid private jobs growth



Source: Renaissance Macro Research, Macrobond

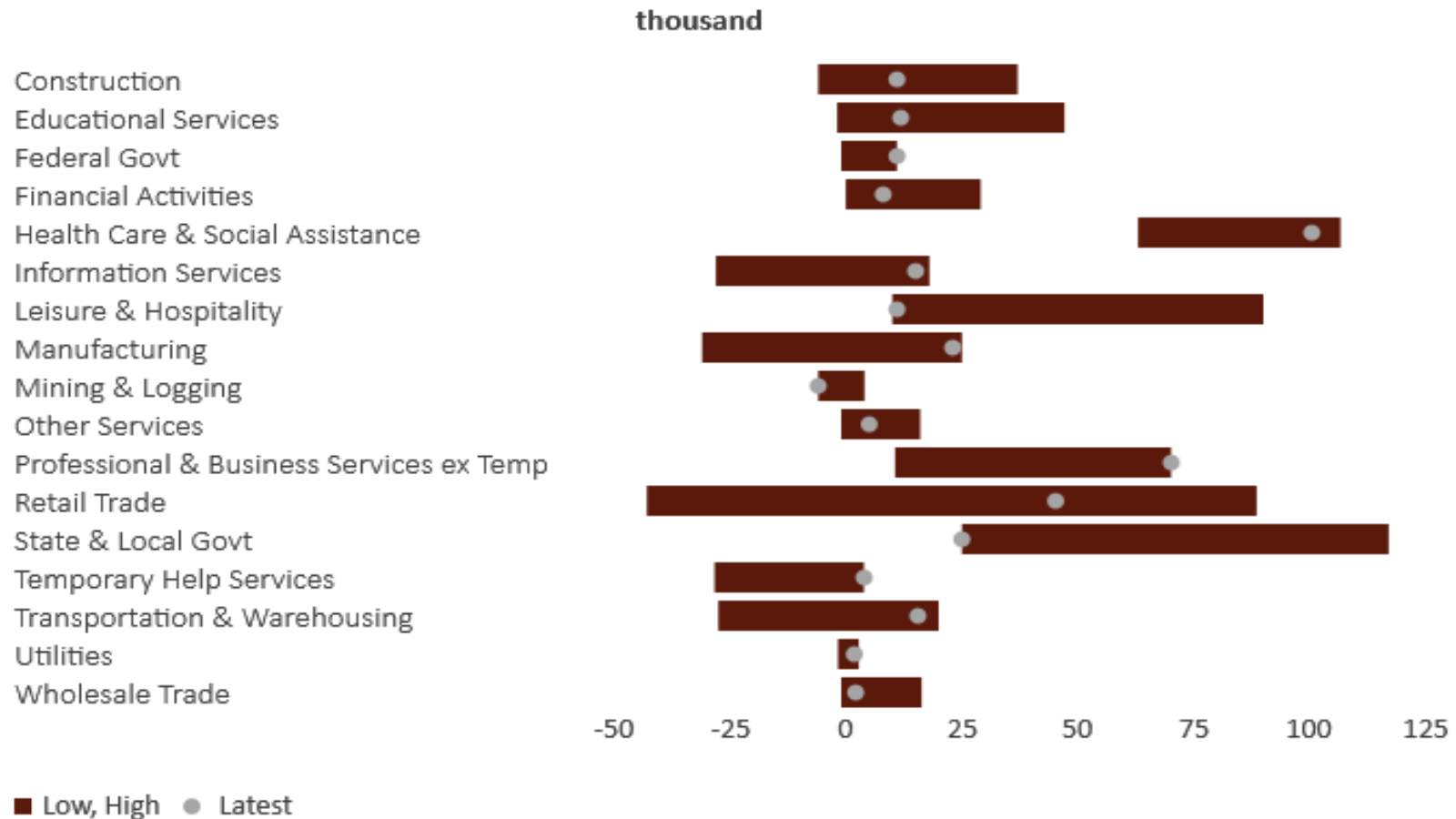
## Which sectors are still below pre-pandemic peak? Nonfarm Payrolls (change since February 2020)



Source: Renaissance Macro Research, Haver Analytics

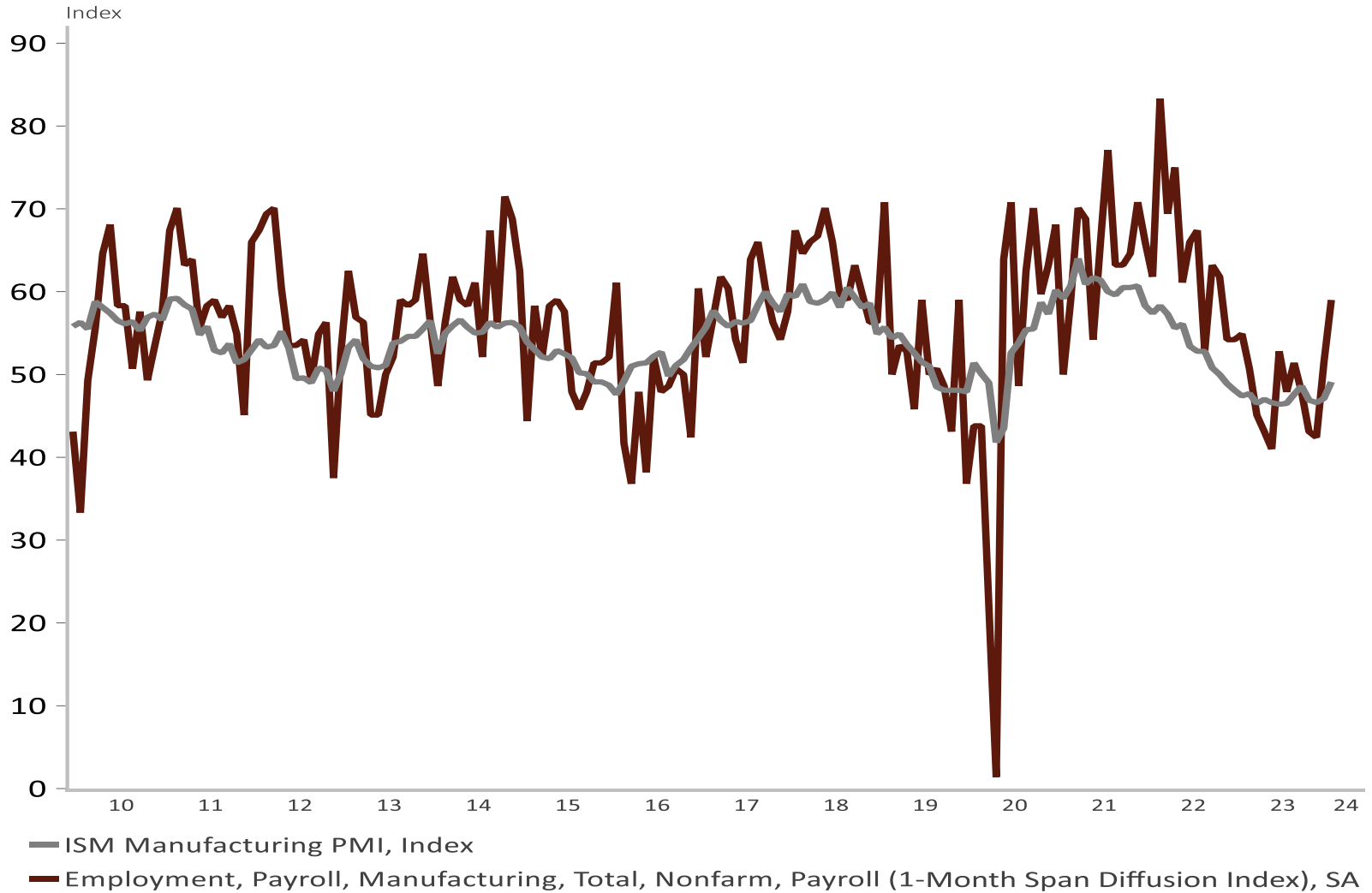
## Which industries adding jobs?

Changes in Payrolls Relative to Range of M/M SA Changes Last Year (as of January 2024)



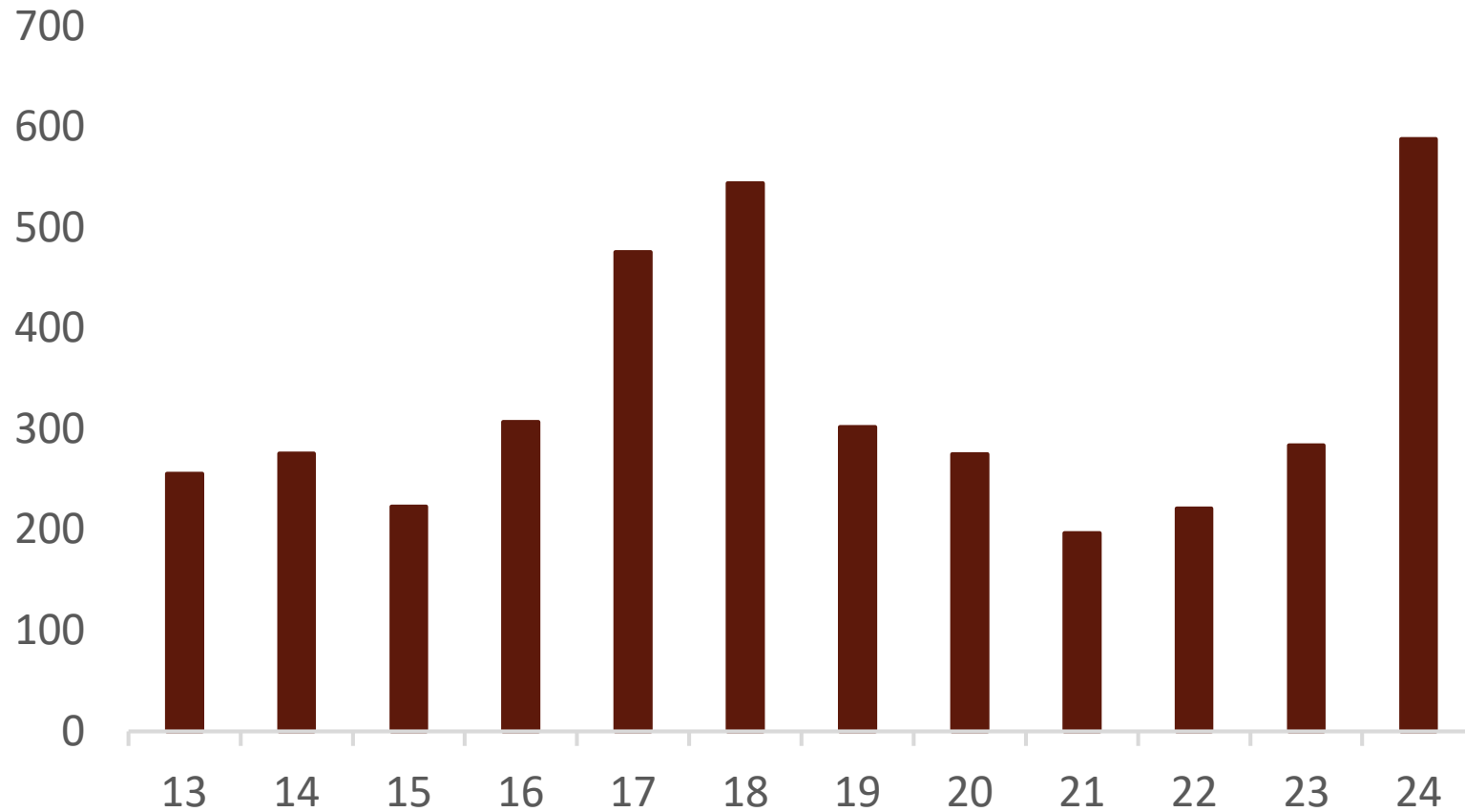
Source: Renaissance Macro Research, Macrobond, BLS

## Employment breadth, a worry in previous months, was strong



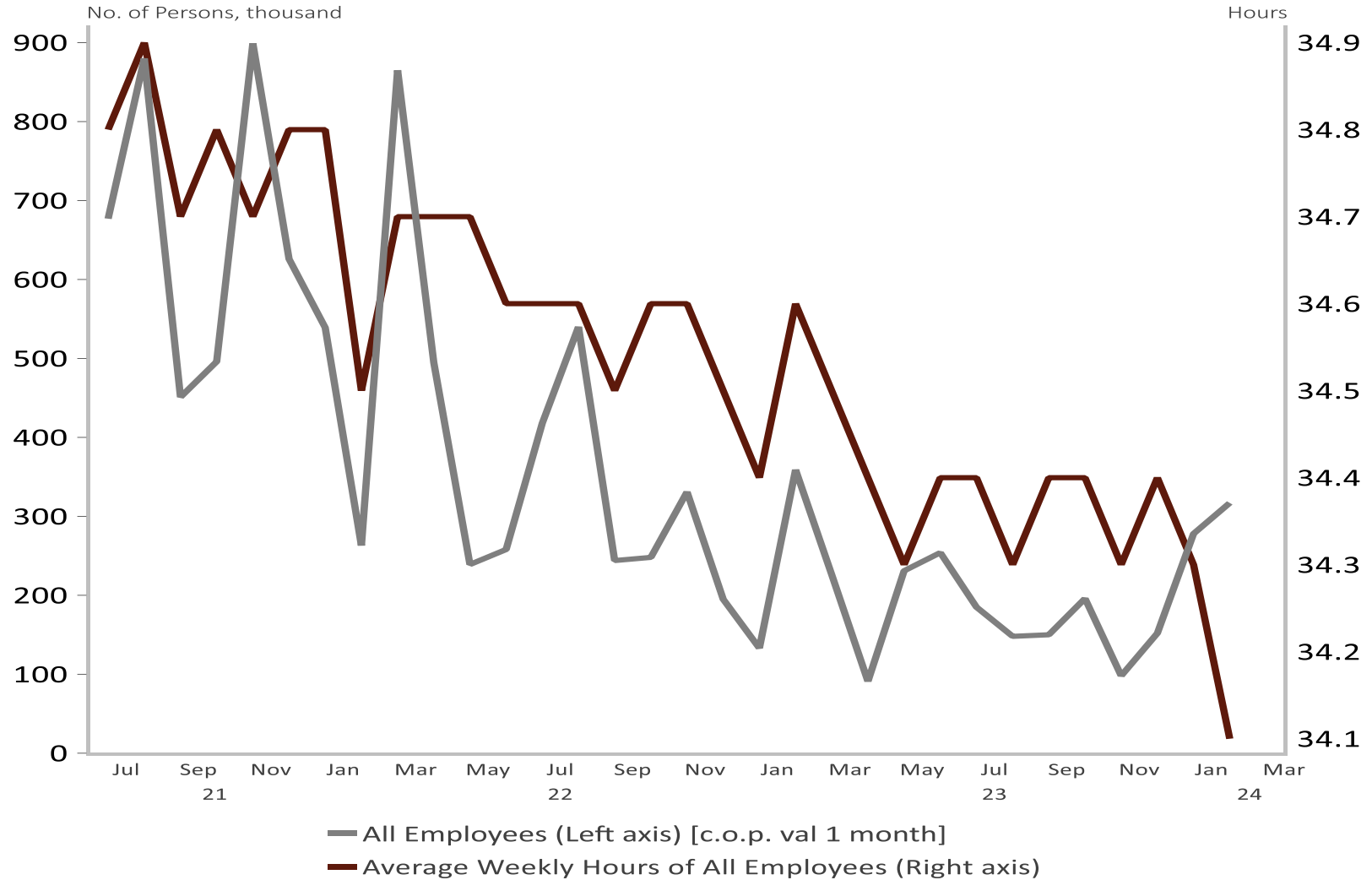
Source: Renaissance Macro Research, Macrobond

## **Lots of folks were off the job in January relative to normal** Not at Work Due to Bad Weather (January only)



Source: Renaissance Macro Research, Haver Analytics

### Jobs and hours at odds

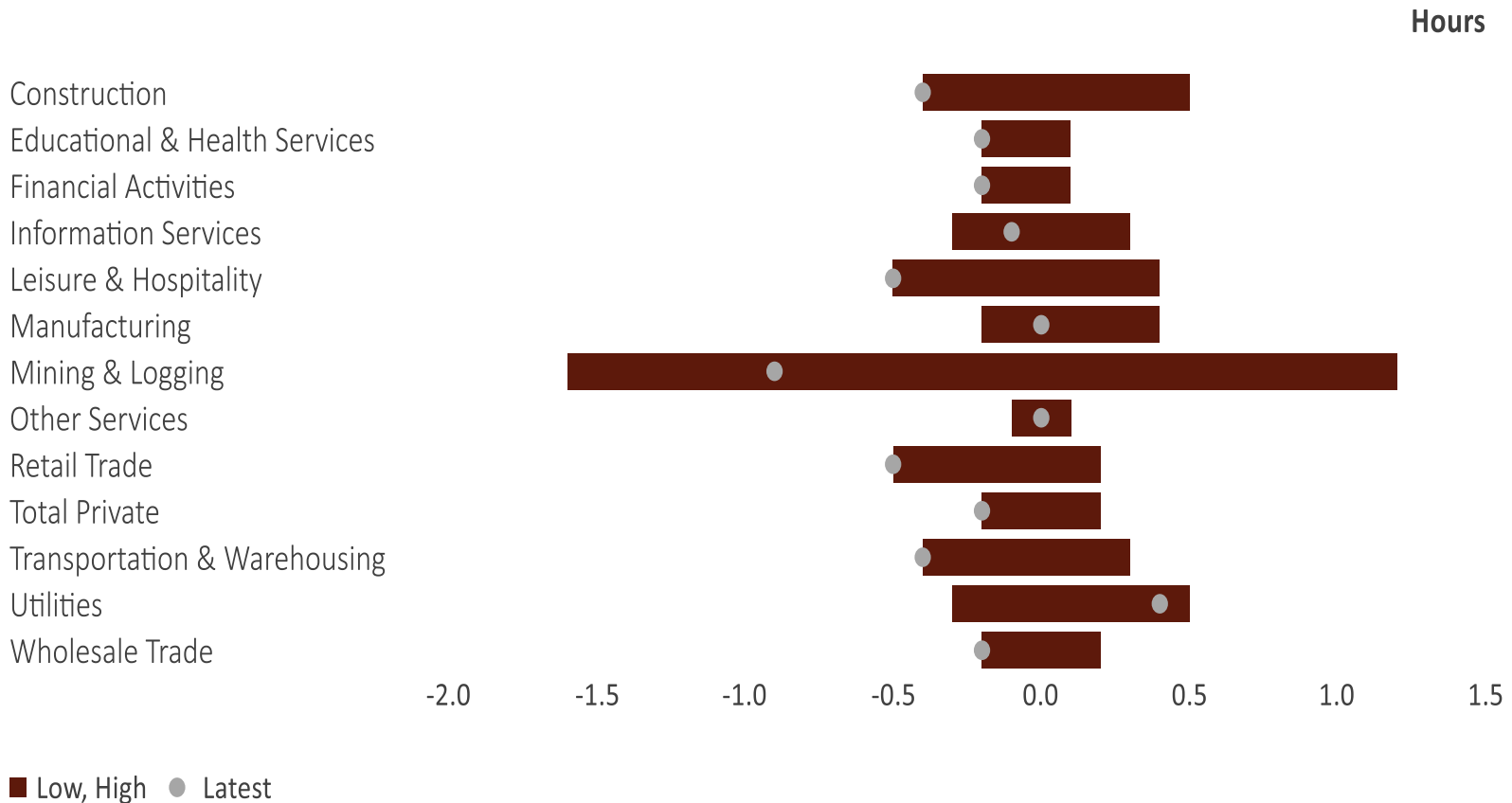


Source: Renaissance Macro Research, Macrobond



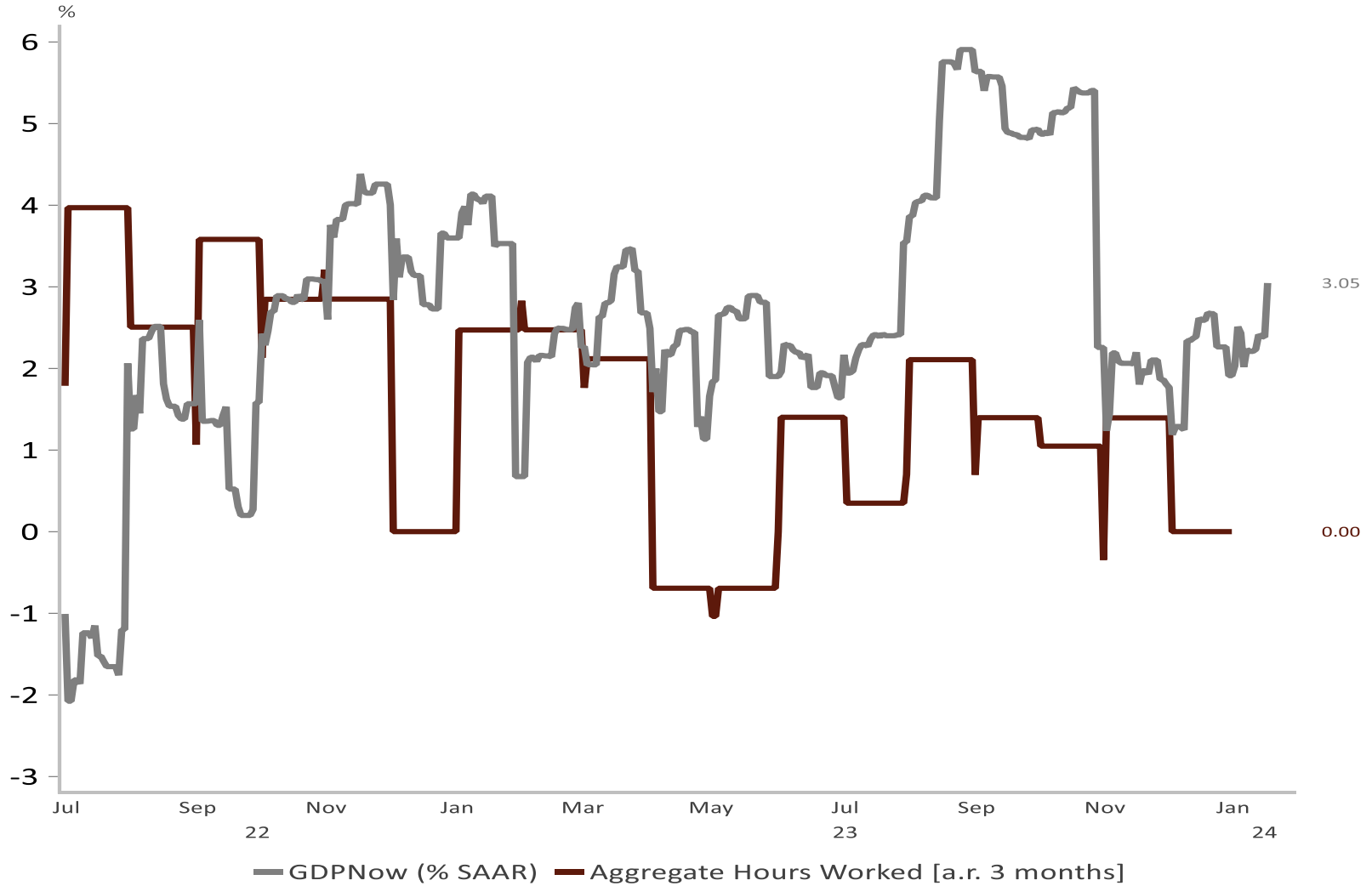
## Where is change in Workweek?

Changes in Average Workweek to Range of M/M SA Changes Last year (as of Jan 2024)



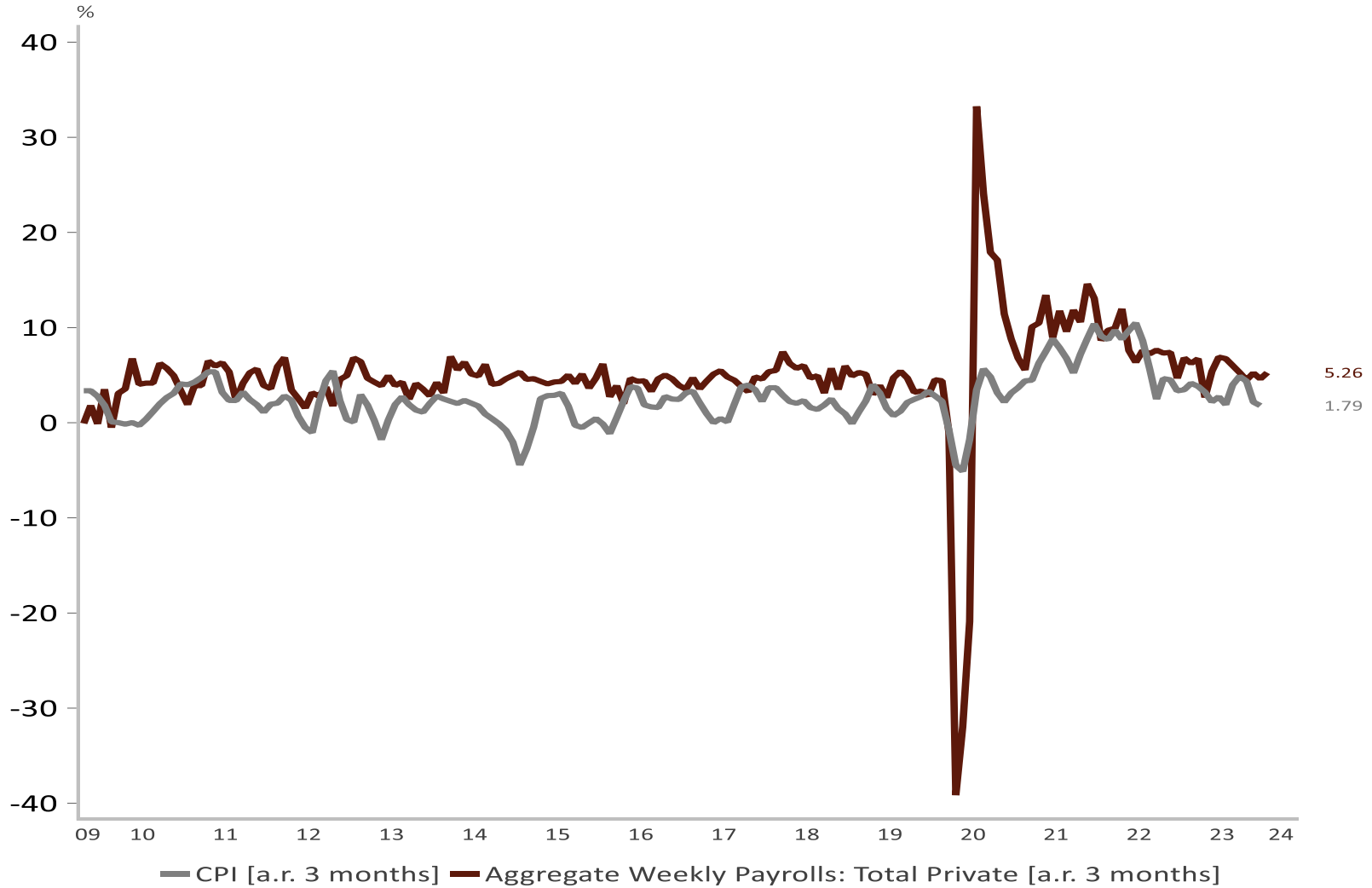
Source: Renaissance Macro Research, Macrobond, BLS

### Productivity up



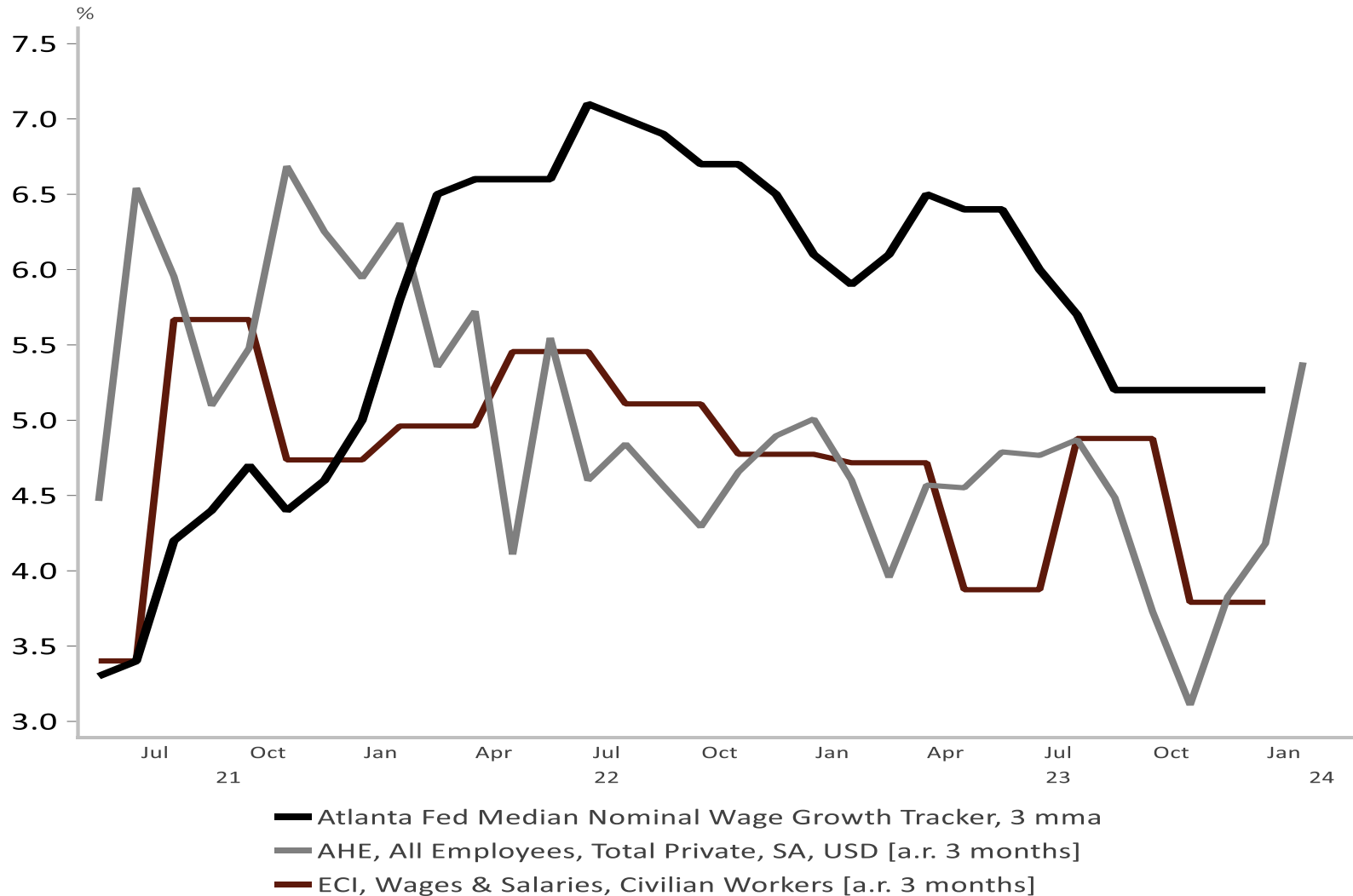
Source: Renaissance Macro Research, Macrobond

### Real incomes are rising due to modest CPI growth



Source: Renaissance Macro Research, Macrobond

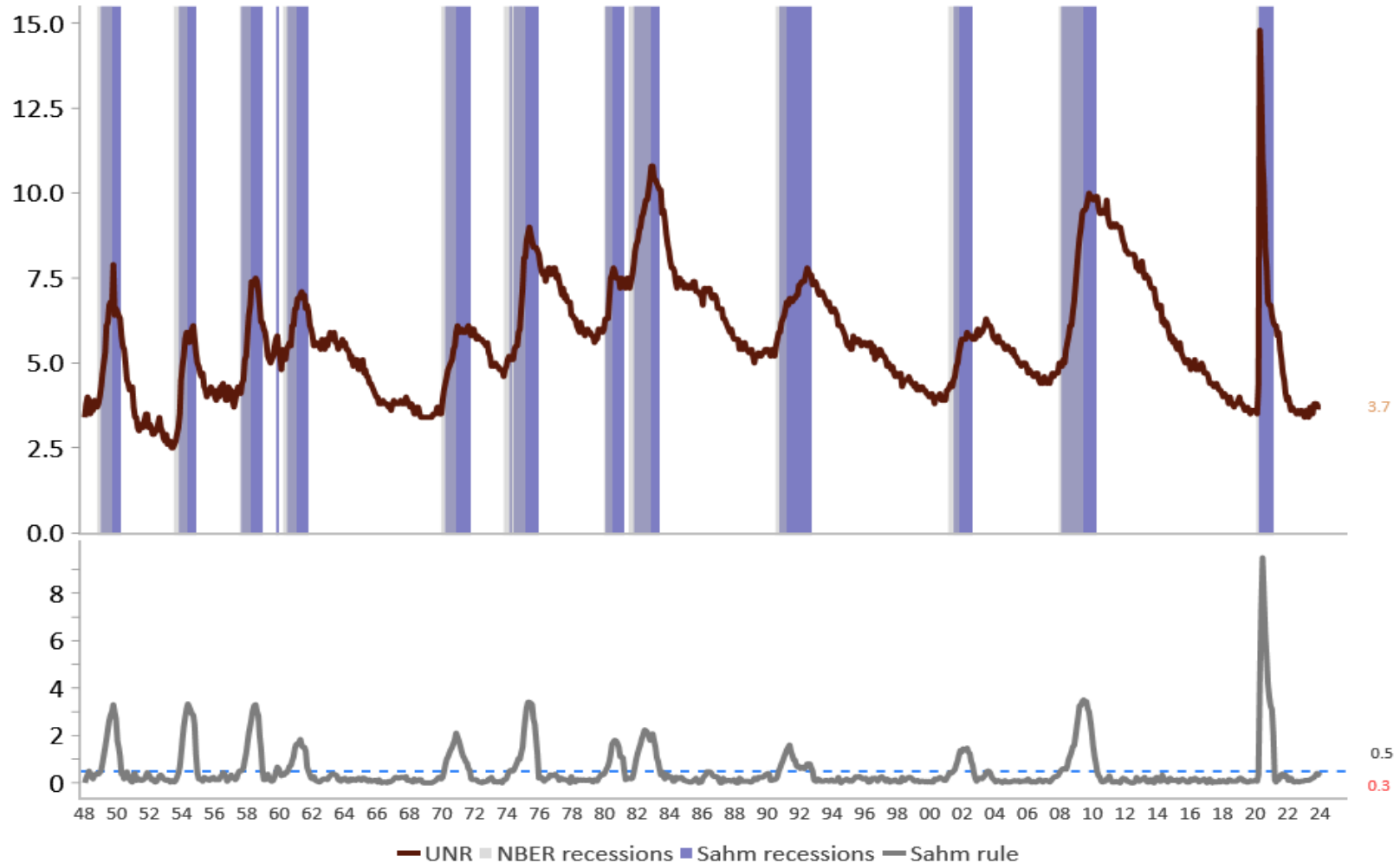
**ECI data incosistent with other wage measures**



Source: Renaissance Macro Research, Macrobond

### A "real-time" measure of recession: The Sahm rule

Recession: if the 3-month moving average of UNR is 0.5 p.p. above the 12-month low of UNR



Source: Renaissance Macro Research, Macrobond

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