ECONOMIC UPDATE

REGIONS

February 5, 2016

January Employment Report: Lots Of Moving Parts Don't Alter The Underlying Trends

- Nonfarm employment rose by 151,000 jobs in December; private sector payrolls were up by 158,000 jobs.
- Average hourly earnings were up by 0.5 percent, with aggregate private sector earnings up by 0.9 percent (up 4.8 percent year-over-year).
- The unemployment rate stands at 4.9 percent (4.921 percent unrounded); the broader U6 measure stands at 9.9 percent.

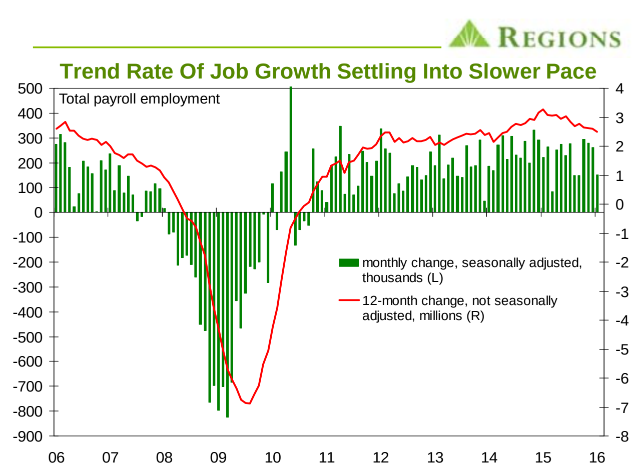
Total nonfarm employment rose by 151,000 jobs in January, with private sector payrolls up by 158,000 jobs and government sector payrolls down by 7,000 jobs. January's job gains were below consensus expectations and our forecast of 166,000. The unemployment rate fell to 4.9 percent and the U6 measure which incorporates underemployment and those marginally attached to the labor force held at 9.9 percent. It is important to note the January data for the payroll survey incorporate the annual benchmark revisions – the seasonally adjusted data going back to 2011 have been revised, with little net effect on reported job growth over the 2011-15 period. Also, the household survey data incorporate the annual updates to the population controls underlying the survey, so the January data are not strictly comparable with data from prior periods without adjusting for this change. Accounting for the new population controls, however, still yields an unemployment rate of 4.9 percent.

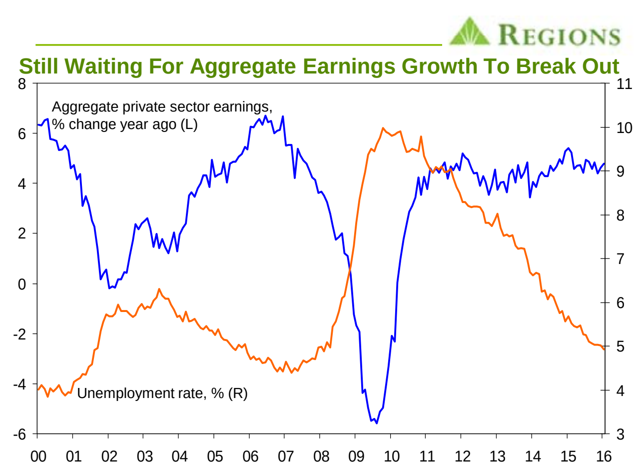
In our weekly preview we noted there would be a lot of moving parts to the January data. The annual benchmark revisions are one of those parts. Prior estimates show the economy added a total of 12.491 million jobs over the 2011-15 period; the revised data now put that at 12.297 million jobs. The downward revision is more than accounted for by the private sector – payrolls are now reported to have risen by 232,000 fewer jobs over the 2011-15 period than had been reported. As a percentage of total nonfarm employment, the benchmark revisions this year are on the same order of magnitude as in past years.

Our bigger concerns, however, related to what we saw as an unusually high degree of seasonal adjustment noise in the previously reported addition of 292,000 jobs in December. Our view was this number was significantly inflated by seasonal adjustment noise, and we expected either a downward revision or payback in January, if not some of both. December's job growth is now put at 262,000 but, again, the benchmark revision could play a role in this difference. We also cautioned there would be noise associated with the unwinding of holiday hiring, which of course happens every year but shifts in holiday hiring patterns posed a risk to seasonal adjustment, and this indeed appears to be the case. For instance, retail payrolls are reported to have risen by 57,000 jobs in January on a seasonally adjusted basis; on a not seasonally adjusted basis retail payrolls fell by 584,000 jobs. But, this decline in unadjusted retail payrolls is smaller, on a percentage basis, than has been the case in prior years as brick & mortar retailers hired fewer seasonal workers in the 2015 holiday season, so, basically, the seasonal adjustment factors overcompensated. In contrast, seasonal adjustment factors did not adequately account for the greater number of warehouse and delivery workers hired in the 2015 holiday season, reflecting the rising incidence of online shopping, again adding noise to the January data.

Beneath all of this noise, there are some factors worth noting as they are more indicative of underlying labor market conditions. First, the one-month hiring diffusion index slipped to 59.5 percent in January, still strong but down from recent months. Second, average weekly hours ticked up by one-tenth of an hour – do not discount this as a trivial shift. Each one-tenth of an hour change in the length of the workweek is equivalent to a change of over 300,000 private sector jobs in terms of the economy's productive capacity. Moreover, in times of uncertainty firms will adjust hours before they adjust job counts, so the smaller gain in jobs in January coupled with the longer workweek could be a sign firms are feeling more uncertain about overall economic conditions. The longer workweek in conjunction with the 0.5 percent jump in average hourly earnings (which in part reflects a weak December base) had a powerful impact on aggregate private sector earnings, which rose 0.9 percent in January and are up 4.8 percent year-on-year.

There are a lot of moving parts to the January jobs report. The underlying trends, however, show job growth slowing as we anticipated, with a still elevated degree of labor market slack making it unlikely January's earnings growth rate will be sustained. And, the broader story of the labor market remains the same – yes, there has been considerable progress made to date, but there remains far to go.





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