ECONOMIC UPDATE

REGIONS

February 2, 2018

January Employment Report: A Noisy Report, But A Rock Solid Labor Market

- Nonfarm employment rose by 200,000 jobs in January; revised data show the U.S. economy added 2.288 million nonfarm jobs in 2017
- Average hourly earnings rose by 0.3 percent; aggregate private sector earnings fell by 0.1 percent in January (up 4.4 percent year-on-year)
- The unemployment rate was unchanged at 4.1percent in January (4.149 percent, unrounded); the broader U6 measure stands at 8.2 percent

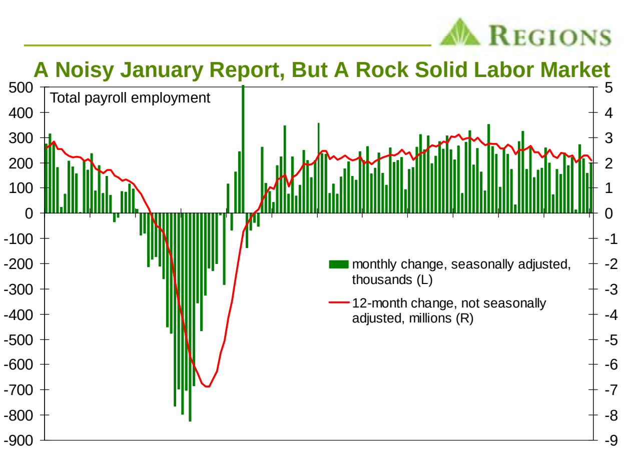
In any given year the January employment report poses an analytical challenge, as an atypically high volume of noise in the data makes it more difficult to properly interpret the numbers than is the case in other months. For instance, the January employment report incorporates the results of the annual benchmark revision process for the data from the establishment survey from which nonfarm employment, earnings, and hours are derived. Additionally, the January report reflects updated population controls governing the household survey, from which the labor force data are drawn, but the historical data are not revised, meaning that the data are not strictly comparable from December to January. On top of this, weather is often an issue with the January data from both the establishment and household surveys (and, yes thank you, we do realize it's always cold in the winter time), and there is often seasonal adjustment noise as temporary holiday workers hired in Q4 of the prior year fall out of the data. The January 2018 employment report is no exception, but the typical January noise doesn't alter the bottom line – the labor market remains rock solid, and may be a bit more so than was thought to be the case prior to this morning's release.

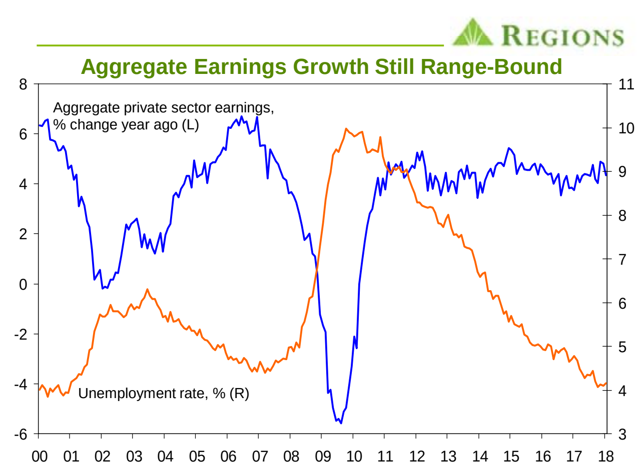
Total nonfarm payrolls rose by 200,000 jobs in January, slightly besting our above-consensus forecast of an increase of 191,000 jobs. Private sector payrolls were up by 196,000 jobs while public sector payrolls edged up by 4,000 jobs. The unemployment rate held at 4.1 percent. Perhaps the one number that is getting the most attention, however, is the 0.3 percent increase in average hourly earnings, which yields a 2.9 percent year-on-year increase, the largest such increase since April 2009. Conversely, the one number that seems to be escaping notice is the decline in the length of the average workweek, which fell from 34.5 hours to 34.3 hours. One implication is that the shorter workweek negated the gain in hourly earnings, to the point that aggregate wage and salary earnings in the private sector actually declined in January.

The benchmark revisions were a bit more modest than average, and resulted in the level of nonfarm employment as of March 2017 being shifted up by 146,000 jobs. While the household data show sizeable increases in the labor force (up by 518,000) and household employment (up by 409,000), these are not adjusted for the new population controls. Doing so yields an 185,000 person increase in the labor force and a 91,000 person increase in household employment, with the net result being the 4.1 percent unemployment rate.

In January, there were 496,000 persons not at work during the survey period due to weather, while an additional 1.823 million people worked fewer hours than normal. While largely comparable to the numbers for January 2017, both of these numbers are considerably larger than January of the prior several years. It could be that the dip in the length of the average workweek simply reflects these weather effects. We place a good deal of emphasis on hours worked, in part because each seemingly small one-tenth of an hour change in the length of the average workweek is equivalent to a change of over 300,000 private sector jobs which, as noted above, has a profound effect on growth in aggregate earnings. Moreover, even at 34.5 hours the workweek was shorter than would be consistent with a labor market straining capacity; we've referred to the still-short workweek as an underappreciated form of labor market slack, as firms still have considerable capacity to increase labor input without taking on additional workers. As the labor market tightens further, we expect the workweek will begin to creep higher. Some will take the year-on-year growth in hourly earnings as a sign of a markedly tighter labor market, but keep in mind that the January wage data incorporate higher minimum wages across several states as well as recently announced bumps in entry wages by many firms. We estimate these factors added just over one-tenth of a percent to the monthly change in hourly earnings.

Again, the January employment report is beset by a considerable volume of noise that make it difficult interpreting the data. The labor market clearly has tightened considerably, the question is how much slack remains. Less noisy reports over coming months will help answer that question, for us and for the FOMC.





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