ECONOMIC UPDATE

REGIONS

February 7, 2020

January Employment Report: Trend Rate Of Job Growth Remains Healthy

- Nonfarm employment rose by 225,000 jobs in January; revised data show nonfarm employment rose by 2.096 million jobs in 2019
- Average hourly earnings rose by 0.2 percent in January; aggregate private sector earnings were up 0.4 percent (up 4.0 percent year-on-year)
- The unemployment rate rose to 3.6 percent in January (3.579 percent, unrounded); the broader U6 measure rose to 6.9 percent

Total nonfarm employment rose by 225,000 jobs in January, topping expectations, with private sector payrolls up by 206,000 jobs and public sector payrolls up by 19,000 jobs. The January data incorporate the annual benchmark revisions to the establishment survey data. As of March 2019, the new reference month, the level of nonfarm employment was revised downward by 514,000 jobs, and total nonfarm payrolls are now shown to have increased by 2.096 million jobs as opposed to the prior estimate of 2.108 million jobs. Measured January job growth was lifted a bit by two factors – first, atypically warm weather lifted job counts in weather-sensitive sectors such as construction and leisure and hospitality services, for which there will be payback in the February data, and, second, a short December 2018 survey period pushed some measured hiring back in to the January data. These factors are nothing more than meaningless noise in the data, but what does matter is that the trend rate of job growth, though having slowed a bit, remains more than sufficient to keep the unemployment rate flat to slightly lower. Moreover, even this deep into an expansion, job growth remains notably broad based across private sector industry groups, which is a sign that the expansion has further to run, even if it does so at a slightly slower pace.

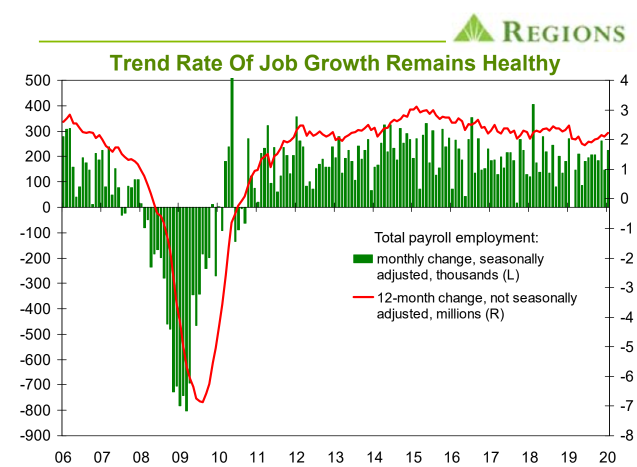
On a seasonally adjusted basis, construction payrolls rose by 44,000 jobs in January. The unadjusted data show that construction payrolls fell in January as is normally the case, but this January's decline was smaller than normal for the month as atypically warm and dry weather meant fewer seasonal layoffs. As a result, the seasonal adjustment factor overcompensated, thus yielding the large increase in the seasonally adjusted number. The same is true of leisure and hospitality services, i.e., a smaller than normal seasonal decline is made to look like a large increase (33,000 jobs) in the seasonally adjusted data. These same patterns held in January 2019, boosting overall job growth only to result in payback in the February data. The revised data show total nonfarm employment rose by 269,000 jobs in January 2019 and by 1,000 jobs in February. Neither number was "the truth," though the truth did lie between the two, and we expect the same pattern this year.

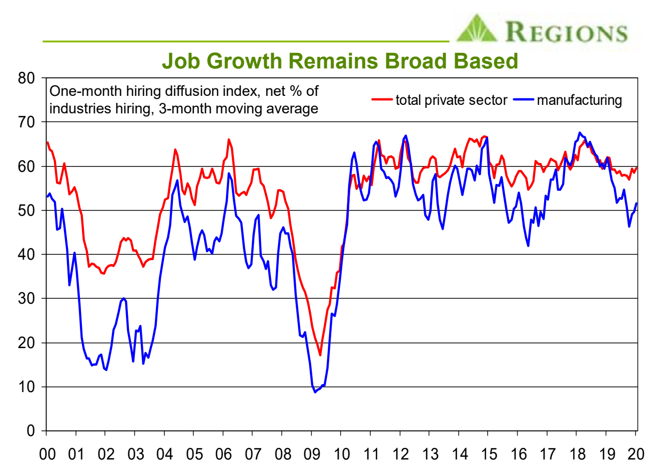
Manufacturing payrolls fell by 12,000 jobs in January, but a decline in payrolls amongst motor vehicle manufacturers accounted for 10,600 jobs of the total decline in manufacturing. The rest of the manufacturing sector is a smattering of job gains and job losses resulting in little net change. Keep in mind that while Boeing has halted production of the 737 Max, they have kept the production workers on the payroll, meaning that, at least for now, job losses stemming from the production halt will come from amongst downstream parts suppliers.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 59.7 percent in January. As our second chart below shows, notably broad based hiring has been one of the hallmarks of the current expansion. Were hiring to become much more concentrated amongst a small number of industry groups, that would be a sure sign that the expansion was running out of steam. It should be noted, however, that the one-month hiring diffusion index for the manufacturing sector has been below 50.0 percent in five of the past six months (our chart shows the three-month moving average), consistent of other indicators showing a factory sector struggling to regain traction.

One notable, though not in a good way, element of the data is that the average length of the workweek remains so short, at 34.3 hours over the past three months. This in part reflects the strength of hiring in industry groups such as education and health services and leisure and hospitality services, in which the average workweek is considerably shorter than the overall average. One implication is that the shorter workweek is holding down growth in aggregate private sector labor earnings, the largest single component of total personal income. Additionally, the short workweek means firms have latitude to increase total labor input by adding hours, which they would be doing were they truly "running out of workers" to hire, which is a curiously popular claim.

On the whole, the labor market remains healthy. Rising participation is consistent with our view that there is still slack yet to be pared down, which will help sustain steady, albeit slower, job growth through 2020.





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