

The January Jobs Report: Resisting Omicron And Climbing Higher

February 04, 2022

Even with a record-high number of omicron cases, the jobs market has begun bouncing back, according to the Bureau of Labor Statistics' (BLS) January jobs report.

This underscores a strong economy, with the U.S. ready to take the gold and move on to the next stage. It also puts the Fed on solid ground to act. We see six rate hikes in 2022 and five more between 2023 and the end of 2024.

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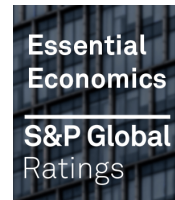
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Our Take On The BLS' Jobs Report

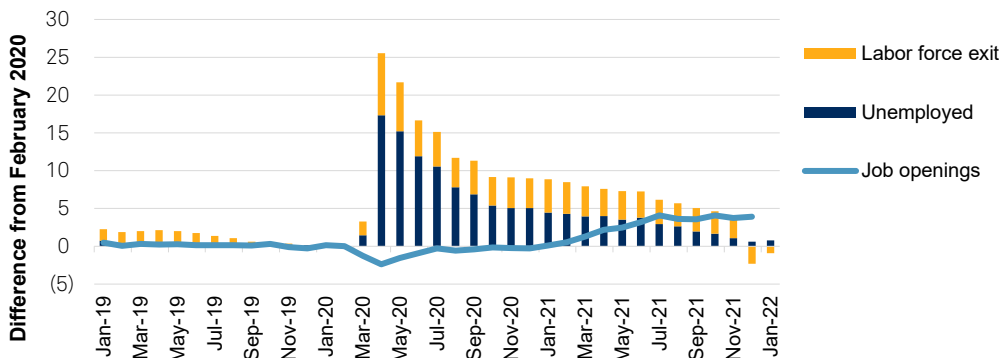
Strong January job gains despite omicron. The BLS nonfarm payrolls gained 467,000 jobs in January, and the prior relatively soft November and December readings also more than doubled on revision. Omicron's presence was still felt. With many likely forced to take time off in order to recover or take care of loved ones, hours worked fell to 34.5 from 34.7.

Inflation and unemployment. The unemployment rate ticked up to 4.0% from 3.9% in December, but for the right reasons. Civilian employment and labor force gains were 1.2 million and 1.4 million, respectively (see chart). Controlling for the 2022 population effect, the measures were each around 1.5 million. Workers also enjoyed fatter paychecks, with average hourly wages up by 0.7% for the month and 5.7% over last January. Higher overall price gains will likely take a bite out of paychecks, likely bringing real wage growth closer to zero.

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More People Return To The Workforce



Note: Seasonally adjusted data. Data as of January 2022. Job openings updated until December 2021. Sources: Bureau of Labor Statistics and S&P Global Economics.

Ain't no stopping (the Fed) now. This solid jobs report, together with inflation readings reaching multidecade highs, puts the Fed on solid ground to start raising rates.

How big a bang: The big question now is whether the Fed will lift off gradually, with a 25-basis-point (bps) hike, or will go with a 50 bps bang. While a dramatic move right out of the gate certainly would signal the Fed means business, and we wouldn't be surprised if the Fed hiked rates by 50 bps sometime in 2022, we suspect that it will start with 25 bps.

Reasons for a slow start include:

- The traditional monetary policy vehicle has been in its garage since December 2018, suggesting the Fed may want to drive it around the block before taking it on the highway;
- The Fed hasn't signaled that a big move is in the offing and may be concerned about a sharp market correction on the action; and
- While inflation readings are uncomfortably high, long-term inflation expectations are a few points above the Fed's 2% target, giving the Fed a reason to not shock the system so soon out of the gate.

But whether the rate hike is 25 bps or 50 bps, it's only the start of many more to come.

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