

January Jobs Report: So Much For Moderation

February 03, 2023

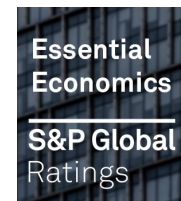
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January payrolls surged by 517,000, according to the Bureau of Labor Statistics, more than twice the 185,000 expected by markets. Gains were broad-based. Despite consecutive rate hikes from the Federal Reserve, the job gains were stronger than the average monthly gains of 401,000 last year. While weather distortions are partly to blame, it's not just January. Gains for the prior two months were revised up. The labor market appears to be even stronger than earlier thought, which seems to confirm Fed Chair Jerome Powell's view that "we have a long way to go" in stabilizing inflation.

The unemployment rate in January dropped 0.1 percentage points to 3.4%, a 54-year low, another sign that the jobs market is far from rebalancing. Along with this, hours worked increased to an astonishing 34.7 from 34.4 in December (previously 34.3). With that said, businesses will need to increase their payrolls after having already stretched the hours their employees work. December job openings rose to 11 million. The ratio of job openings to unemployed workers was back up to 1.9, well above the Fed's implicit target of 1.0, highlighting businesses' unquenched need for more workers.

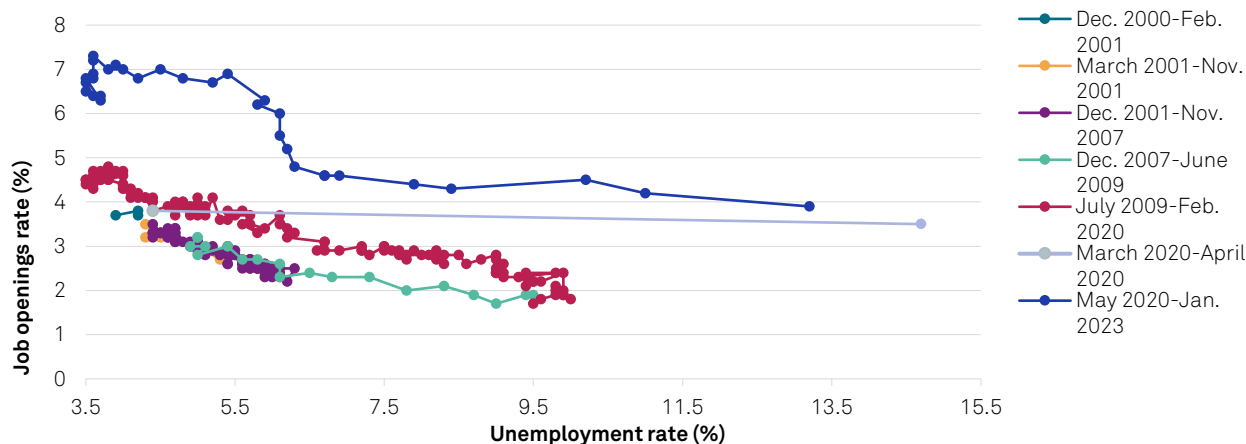
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With Fewer Workers In The Jobs Market, The Beveridge Curve (Job Openings Versus Unemployment Rates) Shifts Out



Sources: BLS employment report, BLS job openings and turnover report, and S&P Global Ratings' calculations.

The report also gave markets something to chew on. More people entered the labor force, pushing the labor force participation rate up 0.1 percentage points to 62.4%, an over 45-year low and still below its precrisis rate of 63.3%. Hourly wages were up an expected 0.3% month over month, while year-over-year gains moderated to 4.4%. That said, the jobs market still faces stubbornly high wage pressures, with year-over-year wage gains almost twice their historical average of 2.5%.

While it's nice to see more people getting jobs with fatter paychecks, it's hard to ignore that those wage gains have been negative when adjusted for inflation. Including January, they will have been negative for 21 straight months. That leaves household purchasing power squeezed.

A continued hot jobs market remains a concern for the Fed, which indicated that it's easing its foot off the pedal. Since the Fed indicated more moderation, it may stick with a 25-basis-point rate hike in March. Either way, with still-hot pricing pressure amid unfettered demand for workers who remain elusive, our forecast of a 5.00%-5.25% fed funds exit rate by May seems increasingly likely. It also means the fed funds rate will keep at its exit rate for even longer. This may be a good time for markets to rethink their expectations for a rate cut later this year.

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