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Datanote: US Employment Report, January

In one line: Positive near-term revisions offset the subpar January print; a March easing is off the table.

- January payrolls rose by 143K, below the consensus, 175K. But the two-month net revision was a hefty 100K.
- The unemployment rate dropped to 4.0%, from 4.1%, below the consensus, 4.1%.
- Average hourly earnings rose by

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0.48%, above the consensus, 0.3%. Net revisions were +0.03%.

Large upward revisions to growth in payrolls in the last two months of 2024 suggest that the trend has stabilized—or perhaps even improved—lately, despite the below-consensus print for January. The six-month average of payroll growth increased to 178K—its highest since May—from 169K in December. Note too that growth in January was weighed down by a 5K increase in the number of workers on strike, and past precedent

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suggests the weather dampened employment growth too, though the BLS said that the wildfires in California and severe winter weather had “no discernible effect”.

January’s data likely will look slightly weaker after additional data has been gathered, but the 68% response rate for the first estimate of January payrolls was closer to its 2010s average, 72%, than in previous months. Over the last two years, revisions to month-to-month growth in payrolls have averaged

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minus 29K between the first and third estimates. Businesses responding late to the survey usually report slower growth in payrolls than those reporting on time, though that wasn't the case in November and December. We can't be sure, but we continue to think that small businesses, constrained by high borrowing costs, are disproportionately responding late.

Meanwhile, the annual benchmarking of payrolls to the Quarterly Census of Employment and Wages—data sourced from businesses' Unemployment

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Insurance filings—triggered a 589K, or 0.4%, downward revision to March 2024 payrolls. This was much smaller than the 818K downward revision preliminarily estimated by the BLS in August, but still large by past standards. Admittedly, the revision mostly stems from the unwillingness of employers to reveal that they employ unauthorized immigrants on UI forms, rather than revealed weakness in the economy. But the total increase in payrolls over the nine months to December also was revised down to 1,409K, from 1,430K, due to tweaks to

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the birth-death model, which had been overstating net job creation at new and expired firms.

In the household survey, the main surprise is the further step down in the unemployment rate. It would have fallen by 0.2pp, rather than 0.1pp, without the updates to population estimates. That said, the drops over the last month, three months and six months, all fail to pass the test for statistical significance at the 90% confidence level. The sample size of the household survey is so small

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that near-term movements often just noise. The job availability question of the Conference Board consumer confidence survey remains consistent with an unemployment rate closer to 4.5% than 4.0%.

Elsewhere, the outsized 0.48% increase in average hourly earnings last month mostly reflects the decline in average hours, likely triggered by some workers being unable to make it to work due to heavy snowfall. That likely temporarily boosted AHE for salaried workers. More

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generally, the slight reacceleration in wage growth in the second half of last year suggested by the AHE now appears to be fading and we doubt that it was genuine anyway. The Fed will continue to pay far more attention to the quarterly employment cost index than the AHE, given that the ECI corrects for several measurement issues in the crude AHE series, including compositional effects. Year-over-year growth in essentially all the major components ECI has continued to decline consistently in recent quarters, including in Q4.

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Moreover, the indicators that have been the most reliable guides to underlying wage growth since the pandemic—such as the JOLTS quits rate—continue to point to weaker underlying wage growth, and therefore softer underlying services inflation, ahead.

All told, the economy created fewer jobs than we previously thought last year, but the trend no longer appears to be deteriorating. We continue to anticipate a relapse mid-way through 2025, given the muted level of hiring indicators and

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elevated uncertainty about the new administration's economic policies. But the near-term resilience of the data renders our forecast for the FOMC to ease policy in March unsustainable. We now remove one 25bp easing from our forecast, but still expect easings in June, September and December, as unemployment starts to rise again and core PCE inflation falls, despite tariffs. The 75bp cumulative easing in 2025 that we anticipate exceeds the 42bp currently priced-in by the futures market.

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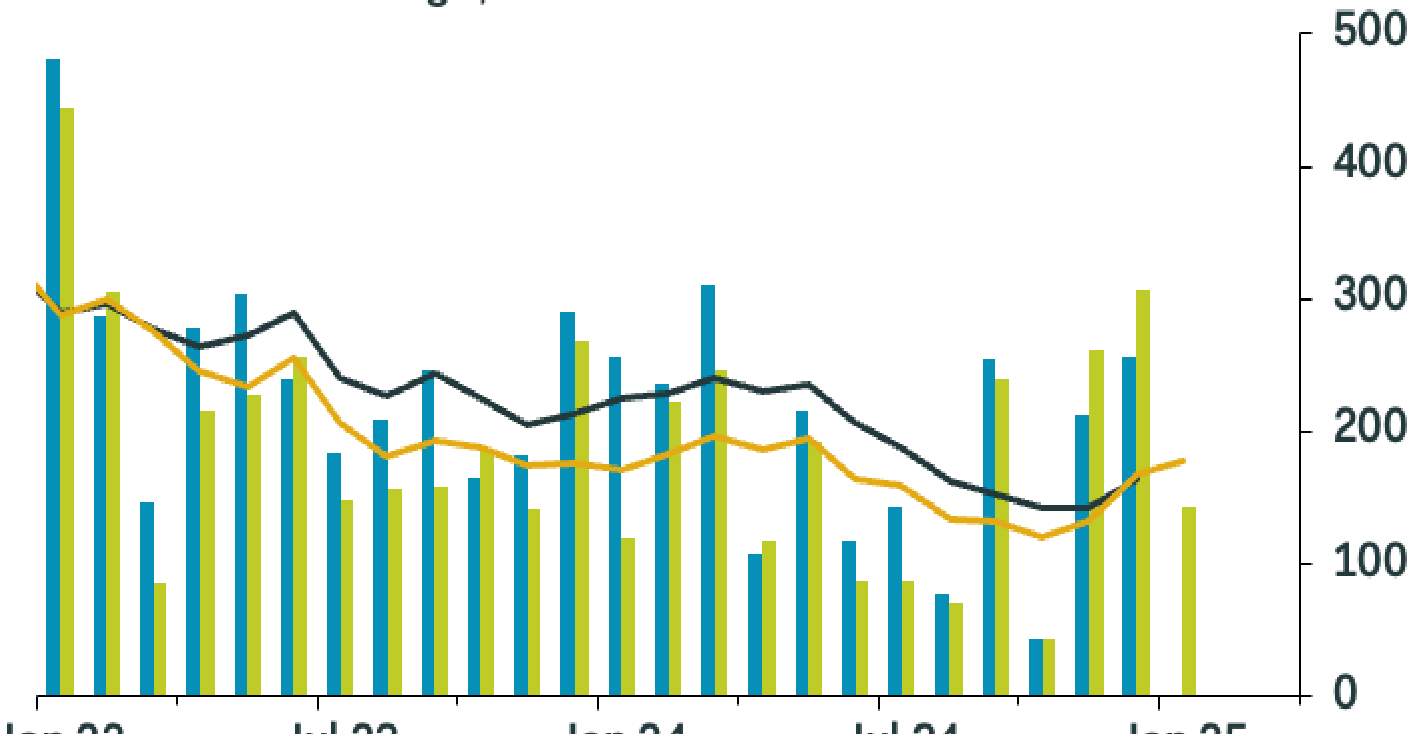

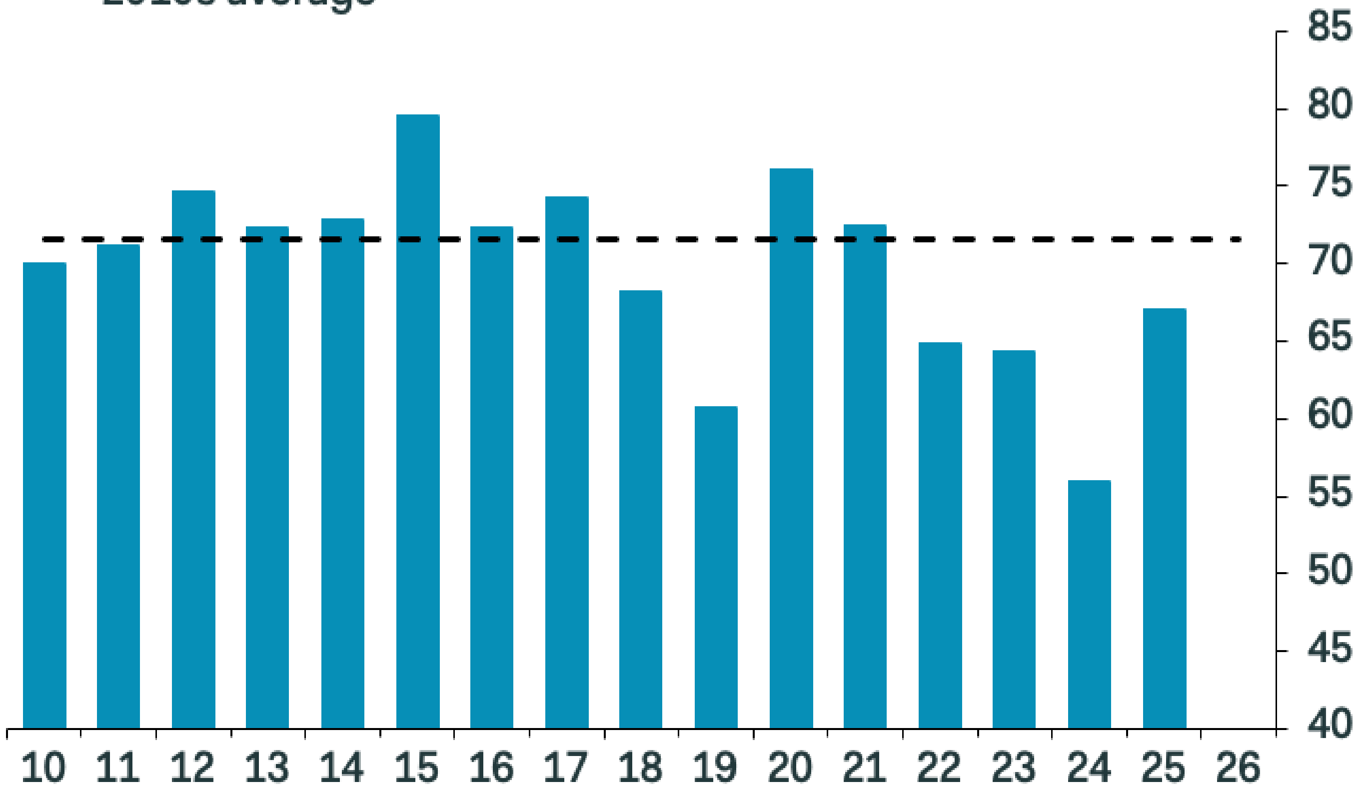

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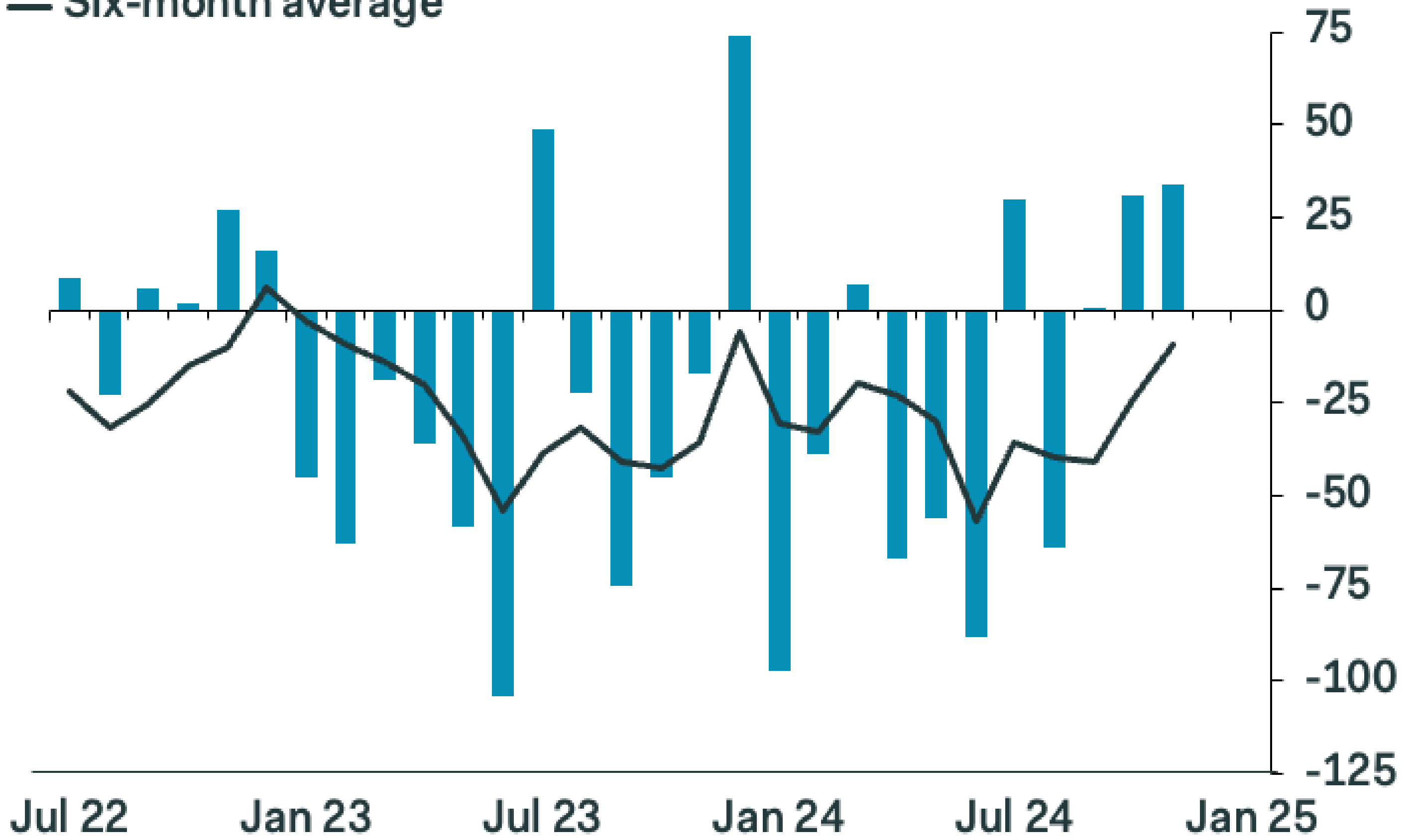

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Average hourly earnings, m/m% (Left)
3m/3m annualized, % (Right)

0.8 0.7 0.6 0.5 0.4 0.3 0.2 0.1 0.0

6.5 6.0 5.5 5.0 4.5 4.0 3.5 3.0 2.5

Jan 22 Jul 22 Jan 23 Jul 23 Jan 24 Jul 24 Jan 25

JOLTS private sector quits rate*, advanced two months (Left)
Average hourly earnings*, y/y% (Right)
ECI: private wages & salaries ex-incentives, y/y% (Right)

Covid-induced distortions due to compositional effects

*Latest data are January only

3.6 3.2 2.8 2.4 2.0 1.6 1.2

6.5 5.5 4.5 3.5 2.5 1.5 0.5

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