PM Datanote: U.S. Employment, January

In one line: Labor demand charging along; wage pressures building.

January payrolls rose 304K, far above the consensus, 165K. But the net revision to Nov/Dec was -70K, with Dec revised down by 90K. Unemployment rose a tenth to 4.0% from 3.9%, above the consensus for no change. Average hourly earnings rose 0.1%, below the consensus, 0.3%.

January forecasts were thrown off by the bigDecember revision - by far the biggest revision to a single month in 2018 as a result of the annual benchmarking exercise - but the real story here is that labor demand remains very strong. Private sector payrolls rose by an average of 234K the three months to January, the best performance in three years. So much for the idea that the drop in stock prices would quickly work through into the real economy. Favorable weather probably helped; the period between the December and January survey weeks was much warmer than usual, with below-average snowfall. The household survey - not directly comparable to the payroll numbers - reports 143K fewer people than usual unable to work due to the weather, compared to 49K more than usual in December; that's a hefty net 192K swing between the two months. Looking ahead, surveys suggest that payroll growth can continued to run above 200K for the next few months, on average, though we have to expect a correction in February; the extreme cold of recent days comes two weeks before the survey, but we'd still expect some impact.

The nudge up in unemployment reflects a 251K drop in the household survey measure of employment, which is noise not signal. The household survey is than a tenth the size of the payroll survey, so it's way more volatile. The labor force was little changed but the drop in employment was enough to lift the participation rate by a tenth to a new cycle high. But the increase in participation in recent months is not enough yet to call a meaningful shift from the flat trend of the past few years, and we still expect unemployment to fall over the course of this year.

Finally, it is absurd to argue, as we've just seen on Bloomberg, that the 0.1% increase in AHE somehow vindicates the Fed's swerve into superdoveland earlier this week. The monthly data are very erratic, and the modest Jan rise followed an above-trend 0.4% Dec jump. It's a correction, nothing more. AHE rose 3.3% y/y in the three months to Jan this year, compared to 3.0% in the three months to July and 2.6% in the three months to Jan 18. If that's not an upward trend, we don't know what is.

Overall, then, this is a strong report, showing that labor demand continues to rise rapidly, and that wage gains continue to grind higher. We see no support here for the Fed's shift, and if wage gains rise over the next year as much they have over the past year, thereby hitting 4.1% a year from now, the idea that the Fed won't hike further will turn to dust.

The first chart shows that payroll growth continues to run very strongly, with no visible hit from the drop in stock prices or the government shutdown. The second chart shows that the rate of increase of AHE continues to trend higher.