US Macroeconomics

February 2, 2024

Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

A January Boom

January nonfarm payrolls surged 353k after December was revised up 117k to 333k. This had the effect of pushing up the three-month moving average to 289k from 227k. **Underlying job growth appears to be accelerating rather than decelerating**. This suggests that Gross Domestic Income, which has been much weaker than GDP, could be revised up when Q4 2023 data are released on March 28.

Job gains occurred across the board, evident from a near 66% reading on the diffusion index of private employment. Government was up a modest 36k, down from last year's average monthly increase of 57k. The breadth of job growth suggests the labor market is unlikely to suddenly weaken, at least in the short-term. The establishment response rate also rose to 56% from 49%.

There was nothing unusual with the January seasonal factor which was nearly the same size as it was in the last three years, adding about 3 million jobs. This was true for the net birth/death adjustment which added 121k jobs last month, down from 144k in January 2023 and in line with January 2022 (114k).

In the details, manufacturing (23k) registered a healthy gain. And construction payrolls (11k) increased for the 10th consecutive month, defying still high mortgage rates. If the labor market eventually turns down, it is likely to show up in construction first.

Private service-providing jobs rose 289k because of solid gains in healthcare (100k), professional and business services (74k) and retail trade (45k). Leisure and hospitality added a scant 11k after being a strong contributor to employment following the reopening of the economy post-pandemic.

The unemployment rate was steady at 3.7% for the third month in a row while the labor force participation rate was unchanged at 62.5% for the second month in a row. Household employment rose 239k after having declined 688k in December. Clearly, these data are much more volatile than payrolls and have shown much less job creation. But this is partially due to the fact that **household employment figures do not capture multiple job holders** whereas the payrolls data do.

The nonfarm workweek slipped a couple of tenths to 34.1 hours, but the factory workweek was flat at 39.8 hours. **The result on hours was arguably the only bad news in the January jobs report.** Consequently, lower hours may have artificially boosted average hourly earnings.

Average hourly earnings rose 0.6% and are up 4.5% over the past year. Given the possible distortion from a falling workweek, and the fact that broader measures of labor costs such as the employment cost continue to show further deceleration, we doubt the Fed is troubled by the increase in earnings.

The January employment strength takes March easing off the table. At this point, if the Fed cuts interest rates in the first half of this year, it is likely to be the result of an ongoing improvement in inflation.

In this regard, we are projecting a 0.19% increase in the January core PCE deflator which would raise the three-month rate of change from 1.5% to 1.8% and the six-month rate of change from 1.9% to 2.0% while the 12-month rate of change falls 0.3% to 2.5%.

If we continue with these modest monthly increases slightly under 0.2%, **the year-over-year growth in the core PCE could be at 2% around midyear**, which would be at least one year sooner than what monetary policymakers had projected last December. This is why the Fed could still be in a position to cut rates this year even though the economy in general — and the labor market in particular — has consistently outperformed expectations. Given how high the current inflation-adjusted fed funds rate is, there is no reason to think the Fed's next move will not be an interest rate cut.

Disclaimers

This document is provided by SMBC Nikko Securities America, Inc. (“SMBC Nikko”), the US-registered broker-dealer affiliate of Sumitomo Mitsui Banking Corporation, for informational purposes only. This document was prepared by SMBC Nikko’s economist(s). The views statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Nikko, It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Nikko and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Nikko and its affiliates do not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Nikko or its affiliates. The trading desks of SMBC Nikko and its affiliates trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Nikko and its affiliates may conflict with those of the recipient. SMBC Nikko and its affiliates may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to SMBC Nikko policies and procedures that apply to the globally branded research reports and research analysts of SMBC Nikko and its affiliates or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Nikko, its affiliates, and their respective directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.