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January Employment Report: The Generous Gift Of Favorable Seasonal Adjustment

- › Nonfarm employment rose by 467,000 jobs in January, with private sector payrolls up by 444,000 jobs
- › Average hourly earnings rose by 0.7 percent while aggregate private sector earnings rose by 0.5 percent (up 9.5 percent year-on-year)
- › The unemployment rate rose to 4.0 percent in January (3.979 percent, unrounded); the broader U6 measure fell to 7.1 percent

It is said that one should never look a gift horse in the mouth, but, really, even St. Jerome would have been put to the test had the gift in question been the January employment report. Total nonfarm employment rose by 467,000 jobs, with private sector payrolls up by 444,000 jobs and public sector payrolls up by 23,000 jobs. January job growth topped expectations that were literally all over the map, with forecasts ranging from a loss of 400,000 jobs to a gain of 250,000 jobs. Our forecast called for an increase of 138,000 jobs, but that was mainly a function of what we expected to be generous seasonal adjustment, which is standard fare for the month of January. This indeed proved to be the case; the not seasonally adjusted data show nonfarm employment declined by 2.824 million jobs in January, a decline of 1.9 percent from December. This is, however, smaller than the normal January decline – the average January decline over the 2000-2020 period was 2.1 percent, and if that doesn't seem too different from the 1.9 percent this January, keep in mind we're talking about a base of almost 150 million jobs, so in terms of the number of jobs, yes, it's a big difference. While the not seasonally adjusted data show sizable job losses in retail trade (down 423,000), leisure and hospitality services (down 352,000), and state/local government education (down 345,800), these losses were smaller than typical for the month of January, such that in each case the seasonally adjusted data show increases in employment in these industry groups.

In addition to a high degree of seasonal adjustment noise, there are several points about January employment report that bear mention. First, the establishment survey data incorporate the annual benchmark revisions, with the seasonally adjusted data going back to 2017 subject to revision. While the level of employment as of March 2021, the new reference month for the establishment survey, was revised up by 374,000 jobs, which is in stark contrast to the initial BLS estimate of a downward revision of 166,000 jobs, a heck of a revision to the revision. The revised data show the U.S. economy added 6.665 million jobs during 2021, compared to the prior estimate of 6.448 million jobs. Prior estimates of job growth in November and December were revised up by a net 709,000

jobs for the two-month period; recall that at the time both of these reports were released, we and most others were puzzled by the paltry job growth they showed, so the revised data make more sense.

The January household survey data incorporate new population controls, which means the January levels of variables such as the labor force and household employment are not strictly comparable to those of December, but variables expressed as rates, such as the labor force participation rate and the unemployment rate, are comparable. That said, the level of both the labor force and household employment are over one million people above the December estimates, oddly large changes even allowing for new population controls. The January data show the labor force participation rate at 62.2 percent and the unemployment rate at 4.0 percent, compared to 61.9 percent and 3.9 percent, respectively, in December, with the participation rate still below pre-pandemic norms.

One reason so many expected so little from January employment report was the surge in absences from work due to the rapid and wide spread of the Omicron variant, with case counts peaking during the BLS's January survey week. The household survey data show 3.616 million people absent from work due to their own illness during the January survey period, which is easily the highest number since the onset of the pandemic, with others either absent from work or not in the labor force at all because they were caring for someone with an illness. While those absent from work are still counted as employed in the household survey, the payroll survey is less clear-cut. One must be present, and be paid, at some point during the survey period to still be counted as employed in the payroll survey, so it could be that many who ultimately missed work were present at the start of the survey period, hence still counted as employed. The bottom line is that absences from work appear to have had less of an impact on payroll employment in January than had been feared. Clearly, the labor market remains a seller's market, and rapid wage growth will continue to draw people back into the labor force. Still, lofty headline job growth number notwithstanding, we caution against drawing too many, if any, conclusions from the January employment report.

