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## January Employment Report: A Surprisingly Strong, But Somewhat Messy, Report

- › Nonfarm employment **rose** by 353,000 jobs in January, with private sector payrolls **up** by 317,000 jobs
- › Average hourly earnings **rose** by 0.6 percent, while aggregate private sector earnings **rose** by 0.2 percent (up 4.8 percent year-on-year)
- › The unemployment rate was **unchanged** at 3.7 percent in January (3.661 percent, unrounded); the broader U6 measure **rose** to 7.2 percent

Total nonfarm employment rose by 353,000 jobs in January, far beyond expectations, with private sector payrolls up by 317,000 jobs and public sector payrolls up by 36,000 jobs. Average hourly earnings jumped by 0.6 percent, leaving them up 4.5 percent year-on-year. At the same time, however, the average length of the private sector workweek fell from 34.3 hours in December to 34.1 hours in January. That acted as a significant drag on growth in aggregate private sector wage and salary earnings, which were up by just 0.2 percent in January, leaving them up 4.8 percent year-on-year. The unemployment rate held at 3.7 percent in January. The labor force participation rate printed at 62.5 percent, matching the rate in December, but we’ll caution that the introduction of new population controls in the household survey, as happens each January, means that the levels of the labor force and household employment in January are not comparable to prior estimates. While the surprisingly strong January employment report can be seen as in line with a (growing) string of upside surprises from the U.S. economy, there are a number of points to keep in mind before drawing any firm conclusions based on this report.

First, while the page has turned on the new year, it’s still the same old story when it comes to the response rates to the BLS’s establishment survey. The initial January collection rate was 56.0 percent, the lowest January rate since 2002 and continuing a pattern of notably low initial collection rates which, as we’ve too frequently noted, diminishes the reliability of the initial estimate of job growth in any given month. Second, there is reason to suspect the headline job growth number is inflated by seasonal adjustment. The not seasonally adjusted data show total nonfarm employment declined by 1.61 percent in January, with private sector employment down by 1.68 percent. Not only are these well smaller than the typical January declines, they are second only to the declines seen in 1984 as the smallest January declines on record in the data going back to 1948. We can point to specific industry groups, such as construction, retail trade, transportation and warehousing services, and courier and delivery services, in which the declines in unadjusted payrolls were much smaller this January than is typically the case for the month.

This in part stems from December 2023 hiring being weaker than is typical for the month of December, particularly hiring related to the holiday season, which in turn would mean fewer seasonal layoffs in January than would otherwise be the case.

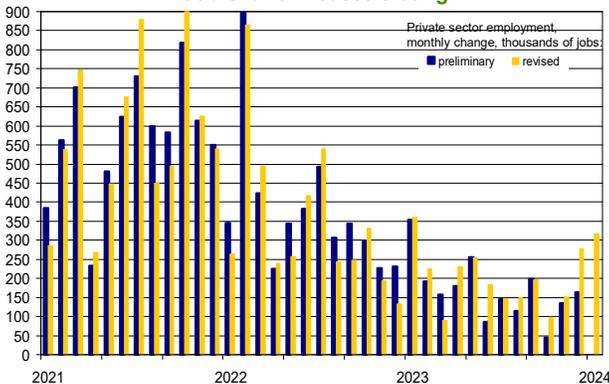
There are also some weather related distortions in the January data. While it is true that, as an esteemed colleague well-versed in science put it, “it’s always cold in the winter, duh,” when it comes to the data it’s a matter of more or less so than is normally the case, and this January saw unusually harsh winter weather across much of the nation. While we thought the earlier January survey period would avoid most weather-related disruptions in the labor market, there were over half a million people not at work due to weather and just under 1.8 million who worked part-time due to weather, the highest January counts in several years. While these metrics come from the household survey, it is likely that the same effects are present in the establishment survey data, particularly the hit to hours worked, with a particularly large decline in construction.

The January establishment survey data incorporate the annual benchmark revisions to the data on nonfarm employment, hours, and earnings. The revisions led to the level of employment as of March 2023 being revised down by 266,000 jobs in the seasonally adjusted data. In terms of monthly job growth, however, there was little net change despite some large changes in individual months. One thing that falls out of the revised data is that the top three industry groups in terms of 2023 job growth – health care and social services, government, and leisure and hospitality services – accounted for 72.5 percent of all job growth in 2023, an uncomfortably high share. At the same time, however, the data show job growth having become more broadly based across the private sector over the past few months, and it will bear watching whether this pattern holds.

It is, to be honest, hard to know what to make of the January employment report, and it will take some time to figure that out. What had looked like a softening labor market now looks like anything but, even if this report overstates the case.



**Job Growth Reaccelerating?**



**2023 Nonfarm Job Growth By Industry**  
change in employment, thousands of jobs

