ECONOMIC UPDATE

REGIONS

February 1, 2019

January Employment Report: Shutdowns, Revisions, And Weather . . . Oh My!

- Nonfarm employment rose by 304,000 jobs in January; revised data show the U.S. economy added 2.674 million jobs in 2018
- Average hourly earnings rose by 0.1 percent in January; aggregate private sector earnings rose by 0.3 percent (up 5.7 percent year-on-year)
- The unemployment rate rose to 4.0 percent in January (4.004 percent, unrounded); the broader U6 measure rose to 8.1 percent

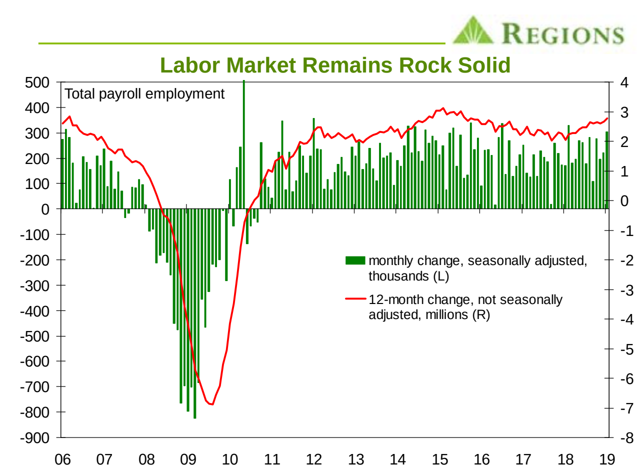
To say there are a lot of moving parts to the January employment report would be a blatant understatement. Indeed, there are more parts than we can possibly do justice to in this single page, so we'll hit the highlights and fill in the blanks later. Total nonfarm employment rose by 304,000 jobs in January, handily beating our above-consensus forecast of 179,000 jobs, with private sector payrolls up by 296,000 jobs and public sector payrolls up by 8,000 jobs. At the same time, however, December job growth was revised down to a gain of "just" 222,000 jobs from the initial estimate of 312,000 jobs. Average hourly earnings rose by 0.1 percent in January, but prior estimates for November and December were revised higher, and average hourly earnings are up 3.2 percent year-on-year. The unemployment rate rose to 4.0 percent and the broader U6 measure, which includes both unemployment and underemployment, jumped to 8.1 percent. The partial government shutdown helped push both U3 and U6 higher, but these effects will wash from the data.

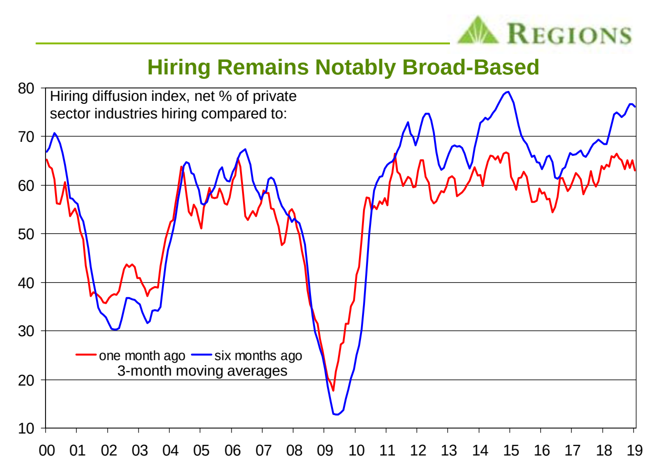
The January employment report incorporates the annual benchmark revisions to the payroll employment data, in which the BLS basically benchmarks its sample of establishments to the universe of firms filing Unemployment Insurance tax returns. This round of benchmark revisions resulted in relatively small changes to prior estimates of job growth, but there were more material changes to the industry composition of job growth. Whereas prior estimates showed the U.S. economy added 2.638 million jobs in 2018, the revised data show a gain of 2.674 million jobs. The most notable changes in the industry mix of job growth show fewer jobs added in retail trade than initially estimated, with greater job growth in construction and transportation/warehousing.

While this may sound like a crazy thing to say as much of the U.S. grapples with the polar vortex, weather actually boosted measured job growth in January. During the establishment survey period, the weather was much more mild than is typical for January, which resulted in fewer job losses in weather sensitive industries like construction and leisure & hospitality services than the seasonal adjustment factors were looking for, hence the seasonally adjusted estimates of job growth in these industry groups are biased higher. The 265,000 people not at work and the 596,000 people working fewer hours than normal due to weather are far below the numbers typically seen in the month of January. It is also worth noting that the response rate to the January establishment survey was the lowest for the month of January since 2003. This means that the BLS had a bigger hole to fill with its internal estimates than is normally the case, which leaves the initial estimate of January job growth prone to a sizeable revision in coming months. We made this very point in our write-up of the December employment report, i.e., the response rate to the December survey was notably low, which is one factor behind the sharp downward revision to the initial estimate of December job growth.

The partial government shutdown did not impact estimates of job growth in the government sector, as the provision of back pay for furloughed government workers resulted in their being counted as employed during the survey period. While private sector contractors who were not at work and not paid during the survey period will not have been counted as employed, the BLS is unable to quantify this effect. The partial shutdown did impact the household survey, as furloughed workers should have been classified as unemployed. In the household survey, the BLS relies on individuals to correctly report their status but it appears a significant number of people incorrectly reported their status as absent from work, rather than unemployed, which actually held down the increase in the headline unemployment rate. It is likely that contractors forced to work part-time rather than full-time hours due to the shutdown contributed to the jump in the broader U6 measure.

Job growth is not as strong as the implied by the initial January estimate, but nonetheless remains strong and broad based. Wage growth continues to accelerate, but still-healthy inflows into the labor force continue to act as a brake on wage growth, and we see further upside room for the labor force participation rate. All things considered, the labor market remains rock solid, and the U.S. economy remains on firm footing.





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