Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

Strong job and wage growth to start ’24 up the chances of soft-ish landing

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Executive summary

U.S. payrolls surged in January, adding 353,000 jobs, which was nearly double consensus expectations of 185,000. Plus, December was revised upward to 333,000, helping goose the six-month average to 248,200 from 192,800.

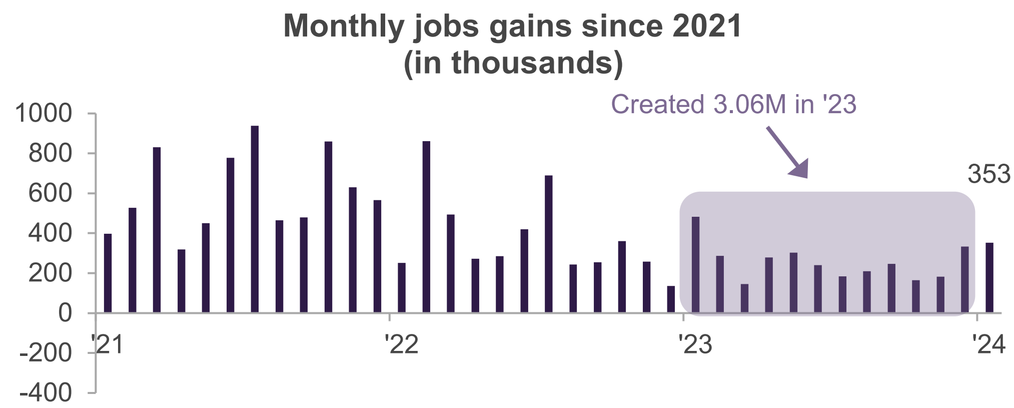
Wages grew at their fastest pace in two years, but hours worked fell. Meanwhile, the unemployment rate held steady at 3.7% for a third month in a row in part due to another drop in the workforce.

Ultimately, the labor market resilience reflects a solid, albeit cooling, U.S. economy. It also validates the Federal Reserve’s (Fed) patience with respect to cutting rates – and provides context for Chair Powell’s pushback regarding the possibility of a March rate cut. They will reduce rates, likely beginning in the summer, which would ease financing pressures on consumers and businesses alike, making a soft landing more achievable in our opinion.

Component	January	Prior month	Six-month average	Comment
Change in payrolls	353,000	333,000	248,200	Net revisions added 126K to the November and December figures, and benchmark revisions boosted all of ’23 by roughly 300,000. The pre-pandemic 3-year average was 177K/month.
Unemployment rate (U-3)	3.7%	3.7%	3.8%	Held steady for a third month, helped by a decline in the workforce of 447,000 workers over that span.
Labor force participation rate	62.5%	62.5%	62.7%	It was unchanged in January and has only increased once (in August) during the past 10 months. It remains 0.8 percentage points below the December ’19 level.
Average hourly earnings (YoY)	4.5%	4.3%	4.4%	The monthly pace rose 0.6%, matching the fastest pace in 24 months, and reaccelerating the annual pace.
Average weekly hours worked	34.1	34.3	34.3	Fell 0.2 in January to the lowest level since the pandemic and is now slightly below the pre-pandemic average. Hours for manufacturing stayed at 39.8 but overtime hours fell to 2.7.

Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

U.S. created 3.06 million jobs in 2023, an average of 255,000 per month.

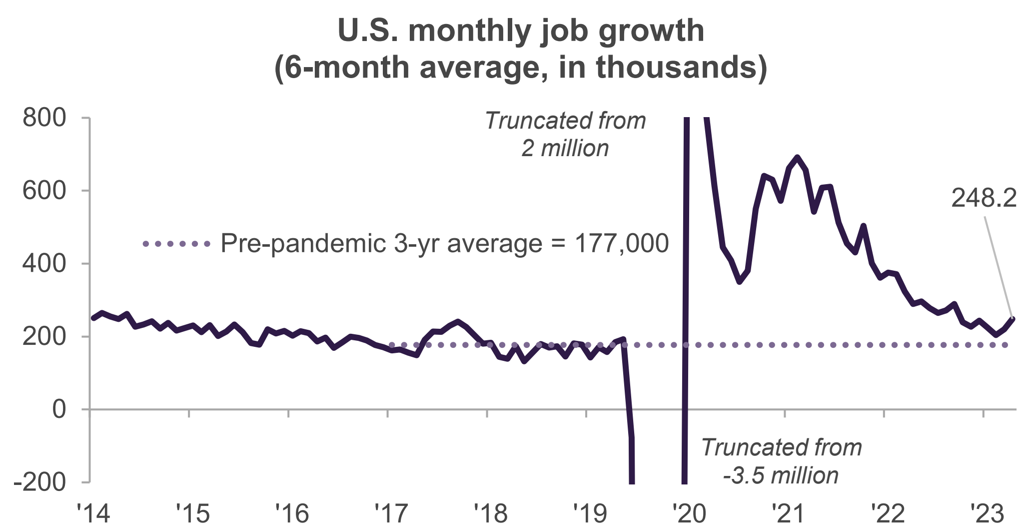


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics.

This report also included annual benchmark revisions. In 2023, the U.S. created 3.06 million new jobs, roughly 300,000 more than previously reported, or 255,000 per month on average.

In addition to the full year revisions, back-to-back months of more than 330,000 jobs helped push the six-month average upward to 248,200 from 192,800.

The six-month average jumped to 248,200 per month thanks to strong job growth in back-to-back months.

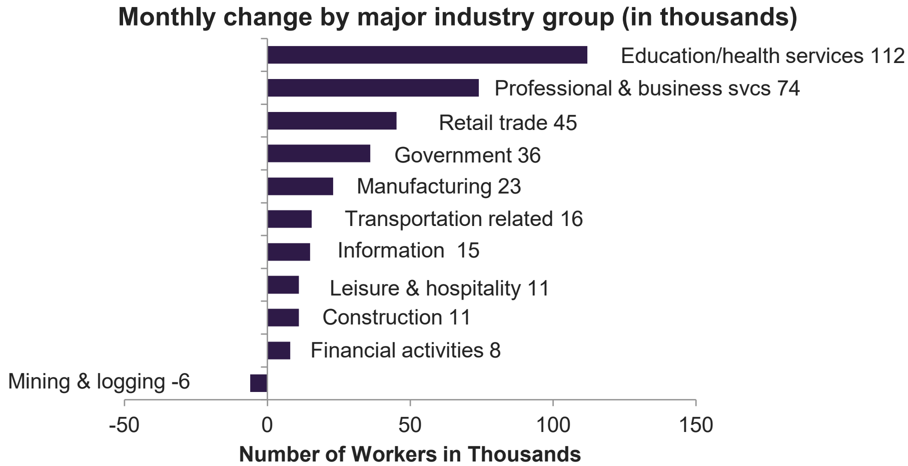


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics.

A review of the major industry trends

Private payrolls increased by 317,000, the most in the past 12 months. Government payrolls chipped in 36,000. Service-providing industries added 289,000 workers, also the most in the past year, while goods producers hired 28,000 workers.

Just one of the major industry groups shed workers during January.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics. Major categories only; sum does not total 100%.

Education/health services added 112,000, the most in the past year. About 90% were health care, sprinkled fairly evenly throughout the subindustry groups.

Professional & business services hired the most in 18 months, nearly 20% (14,500) were tech-related computer positions. Our hunch is that some of those are associated with artificial intelligence (AI).

Temporary help services, which is also within professional & business services industry group, finally added workers, 3,900 during January. That snapped an ugly 21-month streak that has cut 412,200 positions over that span. There are 5.6% fewer temporary workers compared to December ’19.

There was a downshift in government hiring, slipping to third place in January after being one of the largest job creators among the major industry groups for ’23. The bulk of those positions have been added on the local level; more specifically, local education, which accounts for 35% of all government jobs. Total government hiring is up just 1.6% since December ’19 compared to 4.5% for private payrolls, with about 54% coming from state and local levels.

Manufacturing continues to recover from last year’s auto strikes. The motor vehicle subcategory, which includes suppliers along with the big-name manufacturers, has recovered to pre-strike numbers and then some. Their payrolls are up 39,900, or 4%, from a year ago.

Transportation & warehousing payrolls also stopped shrinking, adding 16,000 in January. The couriers and warehousing subindustries both snapped multi-month decline streaks.

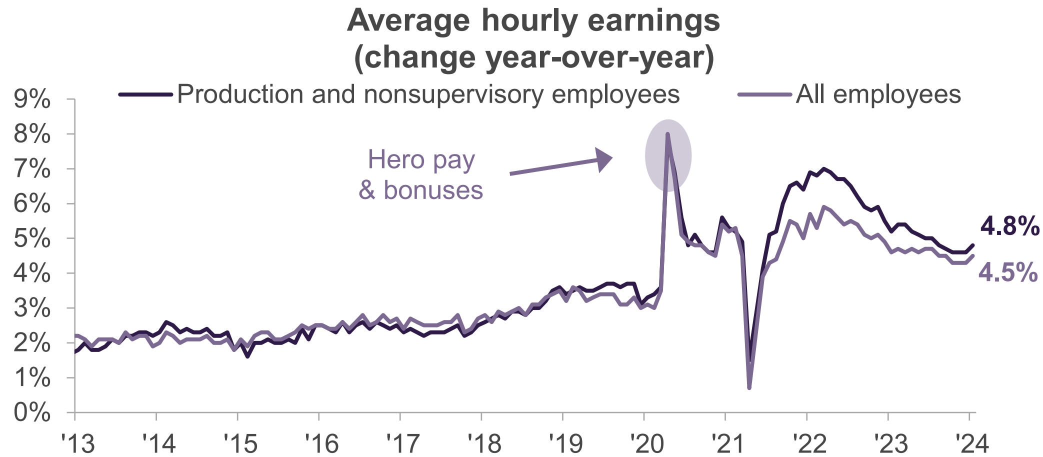
The remaining major industries largely maintained their current trends.

Wages surged, while the unemployment rate held steady

Average hourly earnings rose 0.6% month over month in January, matching the fastest pace in two years and reaccelerating the annual pace to 4.5%. That’s well above the pre-pandemic 10-year average of 2.4%.

Average hourly earnings for rank & file workers—officially known as production & nonsupervisory employees—rose 0.4% during the month. That also reaccelerated the annual pace, which rose 4.8% and remains well-above its pre-pandemic pace. We suspect that some of this reacceleration is the result of the string of big union contract wins during the second half of last year.

Wages appear to be reaccelerating, especially for rank & file workers.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

The unemployment rate stayed at 3.7% for the third straight month. Yet, the broader underemployment rate (U-6) edged up to 7.2% – the highest level in nearly two years – from 7.1% in December.

Hours worked—officially known as average weekly hours worked for all employees—fell by 0.2 to 34.1, taking it slightly below the pre-pandemic 10-year average. Within manufacturing, hours worked remained at 39.8, which is in-line with the long-term average. However, overtime hours slipped to 2.7, the lowest level since the pandemic.

Our take

We aren't surprised generally by the continued resilience of the labor market, though hiring more than 330,000 workers in back-to-back months is impressive. However, we are a bit startled by the magnitude of the strength, particularly the reacceleration of wages. As we mentioned here last month, 22 states had increased minimum wages on January 1st. Furthermore, there have been a string of union contracts that included sizable per hour wage increases in the second half of last year. Thus, these developments suggest the recent reacceleration is a level shift rather than something more ominous.

Additionally, we are encouraged by improvement on an industry level, which included several of the subindustries halting multi-month declines. That also jives with the recent uptick in job openings in November and December, as well as the subdued trend of weekly jobless claims, which remain well-behaved.

We are keenly aware of hours worked slipping below the long-term averages, which certainly isn't a positive development. It remains to be seen if that will be revised away, though it could be related to the stronger-than-expected fourth quarter productivity reading of 3.2%.

That said, the combination of more Americans with jobs and higher wages – coupled with cooler inflation generally – go a long way to bolster consumer finances. It is among the biggest reasons why the U.S. has continued to sidestep a recession, while large swathes of the world have sputtered (yes, we're looking at you Europe).

On the other hand, it does validate the Fed's patience with respect to cutting rates. It provides some context for Fed Chair Jay Powell's comments on Wednesday that a March rate cut wasn't likely. It also underscored our concern that a soft landing could be somewhat self-defeating – the stronger the economy remains ultimately translates into higher interest rates for longer. To be clear, we'd much prefer a stronger economy that needs fewer rate cuts than a weaker one that requires many more.

But inflation has thus far surprised to the downside, receding considerably in recent months, which supports the notion that rates can be reduced some. The Fed appears to agree, as evidenced by Chair Powell and the majority of the rate-setting committee penciling in multiple rate cuts this year.

We were already of the opinion that the Fed would wait longer to reduce rates than markets were projecting. This report – and an increasing group of others – solidifies our view that the Fed will be patient, waiting until the summer. Perhaps they will begin in May or June, which hinges on additional incoming data.

Looking ahead, the cumulative impact of higher rates should continue to slow economic growth. However, the U.S. economy remains incredibly resilient as evidenced by the solid consumer spending trends, strong fourth quarter gross domestic product (GDP), and now a blowout January jobs report.

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