Economic Update

February 2, 2024

Very Strong Job Growth of 353K in January, Big Jump in Wages, Makes Near-Term Fed Rate Cut Less Likely

- **The January jobs report was much stronger than expected, with job gains of 353,000. There was also a big upward revision to December job growth.**
- **The unemployment rate held steady at 3.7%; it has been below 4% for 24 straight months.**
- **Wage growth was very strong, and reaccelerated on a year-over-year basis.**
- **The very strong January jobs report makes a fed funds rate cut in mid-March unlikely.**
- **The U.S. labor market and economy are poised for continued improvement in 2024.**

Job growth in January came in far stronger than expected, at 353,000, according to a survey of firms from the Bureau of Labor Statistics. This was the largest monthly increase in employment since January 2023. There was also a large upward revision to job growth in December, to 333,000 from 216,000. November job growth was revised slightly higher, to 182,000 from 173,000. Average monthly job growth in the three months through January 2024 was almost 290,000, well above the economy's long-term potential. The private sector added 317,000 jobs in January, with government employment growth of 36,000.

The unemployment rate held steady at 3.7% in January, according to a survey of households. The unemployment rate has been below 4% for two straight years, the first time this has happened since the late 1960s. Adjusting for new population controls, employment in the household survey (different from the survey of firms) rose by 239,000, while the labor force increased by 124,000. The labor force participation rate (share of adults working or looking for work) was 62.5% in January, unchanged from December and down from either 62.7% or 62.8% in the four previous months.

Growth was concentrated in private services-providing industries, with gains of 325,000 in January. These included increases of 112,000 in education and health services (100,000 in healthcare) and 74,000 in business/professional services. Retail trade employment was up by a strong 45,000, the best month since February 2023. Goods-producing industries added just 28,000 jobs in January, including increases of 23,000 in manufacturing and 11,000 in construction.

This release included the annual benchmark revisions to employment, using more complete data from unemployment insurance tax filings. With the revisions the level of employment in March 2023 (the benchmark month) was revised slightly lower, but job gains over the course of 2023 were revised slightly higher.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

There was a big jump in average hourly earnings over the month of 0.6% (rounded up from 0.553%), the biggest one-month increase since early 2022. On a year-over-year basis average wage growth was 4.5%, an acceleration from 4.3% in December (4.1% before revisions); this was the fastest year-ago wage growth in almost one year. While wage growth was strong, the average workweek dropped by 0.2 hours to 34.1, the shortest average workweek since the pandemic. It could be that colder-than-usual weather pushed down the average workweek in January. With more jobs, higher wages, but a shorter workweek, total payrolls rose 0.2% in January from December, which should keep pace with inflation (CPI to be released on February 13).

The much stronger than expected January jobs report, including a big job gain in January, upward revisions to job growth in previous months, and a big increase in wages, makes a near-term cut in the fed funds rate less likely. In his press conference on Wednesday Federal Chair Powell pushed back against market expectations for a rate cut in March, and this morning's report is another argument against a cut at the Federal Open Market Committee's next meeting, on March 20. Committee members will be concerned that strong job and wage growth in late 2023 and early 2024 could reignite inflationary pressures in the U.S. economy. PNC's baseline forecast is for the FOMC to cut the fed funds rate by 25 basis points at its following meeting, on May 1. PNC then expects an additional cumulative 75 basis points in fed funds rate cuts through the rest of 2024, which would bring the rate to a range of 4.25% to 4.50% at the end of 2024. The fed funds futures market is now pricing in a 20% probability of a rate cut at the mid-March FOMC meeting, down from 38% yesterday and 79% a month ago.

While the strong jobs report makes fed funds rate cuts less likely, it is good news for the U.S. economy in early 2024. After strong growth to close out last year, the economic expansion remains solid at the start of this year. Demand for labor remains sturdy, and gains in jobs and wages will support growth in consumer spending. PNC expects continued, albeit slower, job growth over the course of 2024, with a modest increase in the unemployment rate, to slightly above 4% by the end of 2024.

Stocks opened the day modestly higher. The yield on the 10-year Treasury note jumped by 12 basis points to 4.00% after the release of the strong jobs report, with the yield on the 3-month Treasury bill up slightly to 5.38%. The dollar strengthened against a basket of currencies on reduced expectations for fed funds rate cuts. The price of a barrel of West Texas Intermediate crude fell by almost a dollar to just below $73.

PNC Economics
economics@pnc.com

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