



Solid January jobs report despite shutdown noise

But expect sharp revisions in coming months as it fades.

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BOTTOM LINE

The labor market largely ignored the distortions from the longest federal government shutdown in history, posting a much stronger-than-expected gain of 304,000 nonfarm jobs in January and the highest labor force participation rate, at 63.2%, in more than five years.

But the official unemployment rate (U-3) rose a tick to 4% and the labor impairment rate (U-6) soared from 7.6% to 8.1% because of the government shutdown, which lasted for 35 days and was temporarily ended Jan. 25. According to the Bureau of Labor Statistics (BLS), the number of unemployed on temporary layoff (many of them federal workers) rose by 175,000 last month. In addition, the number of Americans working part-time for economic reasons (almost all of them in the private sector) leapt by 500,000.

Many of the 800,000 federal workers who were furloughed were still included in the establishment survey because they will collect back pay, although they were considered unemployed in the household survey, which posted a sharp decline of 251,000 workers. Private workers in related businesses, such as contractors, will not receive back pay, and their lost hours may never be fully recouped. Regardless, we believe the underlying trend is for continued labor-market strength and higher wages over the balance of 2019.

Assuming Congress and the administration don't shut the federal government down again on Feb. 15, it will still take a few months for January's labor-market noise to fully fade, and we expect sharp revisions in coming months. As a result, we expect the Federal Reserve to remain "patiently" tethered to the sidelines for at least the first half of 2019.

Nonfarm payrolls rose At 304,000 jobs, nonfarm payrolls jumped well above the Bloomberg consensus of 165,000 and Federated's own slightly more optimistic forecast of 177,000. But the BLS revised November up by 20,000 and December down by 90,000, respectively, totaling a net loss of 70,000 over the two months. November's preliminary weather-impaired gain of only 155,000 jobs, revised up to an increase of 176,000 last month, was revised up again to a final gain of 196,000 this morning. December's preliminary gain of 312,000 jobs was revised sharply lower to a gain of 222,000. Despite the noise, we're still averaging a very solid gain of 232,000 jobs each month over the past six months.

Strong ADP & claims data ADP's private-sector hiring also was much stronger-than-expected, with a gain of 213,000 jobs (versus consensus expectations of 181,000). Initial weekly unemployment claims hit a new half-century cycle low of 200,000 for the week ended Jan. 19, but suffered a temporary surge to 253,000 last week, due to the government shutdown.

Government hiring rose Combined government jobs grew only 8,000 in January, which means private payrolls soared by a robust 296,000 in January versus consensus estimates for a private payroll gain of only 175,000. Local payrolls added 9,000 workers in January, state payrolls lost 2,000 and federal payrolls added 1,000.

Household survey plunges due to shutdown The admittedly volatile household survey lost 251,000 jobs in January, as furloughed government workers were classified as “unemployed on temporary layoff.” That compares with gains of 142,000 in December, 221,000 in November, 513,000 in October and 465,000 in September. As this leading indicator for nonfarm and private payrolls serves as the basis for the unemployment rate, this transitory decline likely will be reversed in coming months.

Unemployment, labor-impairment and participation rates all rise The labor-force participation rate (the share of working-age people in the labor force) rose a tick to 63.2% in January, which matches a 5-year high (September 2013). The 41-year low of 62.4% was set in September 2015. Because of the decline of 251,000 workers in the January household survey and the increase of 51,000 discouraged workers, the unemployment rate rose to a 7-month high of 4% versus a 49-year low of 3.7% in November. This transitory bump related to the shutdown likely will be reversed in coming months. The labor-impairment rate—also known as the “total” rate of unemployment (or the underemployment rate) because it more broadly includes discouraged workers and the underemployed—leapt to 8.1% in January from 7.6% in December and November, due to the shutdown. August’s 7.4% was a 17-year low, so there’s still plenty of slack in the labor market.

Wage growth mixed, hours worked flat Average hourly earnings rose a tepid 0.1% month-over-month in January versus a robust 0.4% gain in December. But the year-over-year gain slipped to 3.2%, down from December’s upwardly

revised 3.3% gain. For the fifth time in the past six months, the average private workweek for all employees remained steady at 34.5 hours in January. An increase of 0.1 hour worked theoretically adds 350,000 jobs to the economy.

Construction soars while manufacturing slips The weather in mid-January was more seasonable than it is now, so construction added a robust 52,000 jobs last month (its largest gain in nearly a year) versus 28,000 in December and only 5,000 in November. The recent weakness in the ISM data sparked a sharp decline in the manufacturing sector, which added only 13,000 jobs in January versus a downwardly revised 20,000 in December (preliminary at 32,000), 27,000 in November and 29,000 in October.

Retail and transportation strong, but temps weak Christmas retail sales may have been their strongest in six years, particularly e-commerce. Retail added 21,000 jobs in January versus a downwardly revised loss of 12,000 jobs in December (preliminary gain of 24,000 jobs) and a final gain of 33,000 jobs in November. The transportation & warehouse sector, which delivers online purchases (FedEx, UPS, etc.), added 27,000 jobs in January versus a downwardly revised loss of 5,000 jobs in December (preliminary gain of 2,000 jobs), and gains of 24,000 jobs in November and 17,000 jobs in October. Temporary help (a leading economic indicator) added only 1,000 jobs in January, compared with 8,000 in December, a downwardly revised final gain of 1,000 jobs in November (originally 11,000 jobs), 16,000 in October and 13,000 in September.

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