mni

All Signal, No Noise

MARKET ANALYSIS

U.S. Payrolls Preview: Feb 2025

MNI View: Revisions And Seasonality In Focus

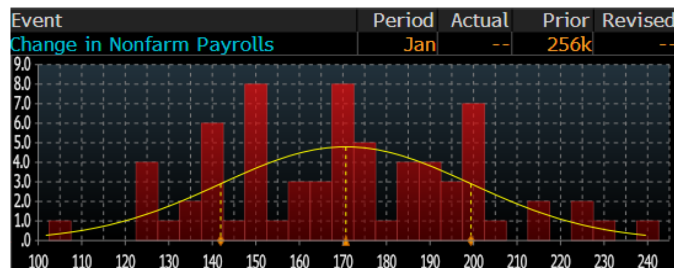
Feb 5, 2025 - By Chris Harrison and Tim Cooper

Executive Summary

- January's employment report will receive almost as much attention for comprehensive revisions as for the monthly nonfarm payroll gains, which are expected to slow to 170-180k from December's strong 256k.
- January is typically a difficult month to forecast payrolls (estimates range from 135k-225k), with a pronounced seasonal pattern that includes large post-holiday layoffs.
- Wildfires in Southern California could act as a small drag this month – we have seen some estimates on the order of circa 20k – although extremely cold weather didn't fall in the payrolls reference period.
- The unemployment rate is expected to print 4.1% for a second month, while average hourly earnings and hours worked are seen relatively steady.
- The annual revisions to the establishment survey are seen lowering the level of payrolls that had previously been registered for March 2024 by around 700k, while we'll be closely watching the revisions to the seasonal factors for the past five years. New population controls for the household survey also feature.
- There is little to no urgency among Federal Reserve policymakers to ease policy in the near future, but a large downside miss could crack the door back open to a March rate cut.
- The revisions could make it hard to get a clean immediate read on the January data's implications for monetary policy, but with rate cuts being priced out, the FOMC may prove more sensitive to downside than upside surprises after a period in which downside risks to the labor market appeared to have dissipated.

Annual Benchmarking And Seasonal Revisions To Complicate Analysis

Nonfarm payrolls growth is expected at 170k in January per Bloomberg consensus as growth eases after a far stronger than expected 256k from December. Primary dealer analysts see a median of 180k whilst the Bloomberg whisper currently at 195k two days out. LA wildfires could act as a small drag this month – we have seen some estimates of circa 20k – although extremely cold weather didn't fall in the payrolls reference period. It's a release that could alter our understanding of recent trends as it will include annual revisions for the establishment survey (in addition to the usual two-month revisions) as well as new population controls for the household survey.



Recent Payrolls Surprises vs Revisions (000s)

	Outturn	Cons.	Surprise	2-mth Rev.	Net
July	114	175	-61	-29	-90
Aug	142	165	-23	-86	-109
Sep	254	150	104	72	176
Oct	12	100	-88	-112	-200
Nov	227	220	7	56	63
Dec	256	165	91	-8	83

Outturn and two-month revision showing for at the time of release
Source: BLS, Bloomberg, MNI

What Do The Annual Revisions Impact?

Establishment survey: the benchmark revision will incorporate new data for the twelve months up to March 2024, with March seeing the full adjustment and then it smoothed backwards over those twelve months. The preliminary estimate from back in August pointed to a particularly heavy -818k downward revision to the level of non-seasonally adjusted payrolls in March but subsequent revisions to the comprehensive QCEW data suggest something in the region of -700k looks more likely or slightly less. Subsequent payroll figures from April 2024 onwards will also be revised courtesy of new seasonal factors and updated estimates for the net birth/death model, along with the usual two-month net revision based on new information not available at the time of earlier publications. We touch more on the importance of recent seasonal trends below.

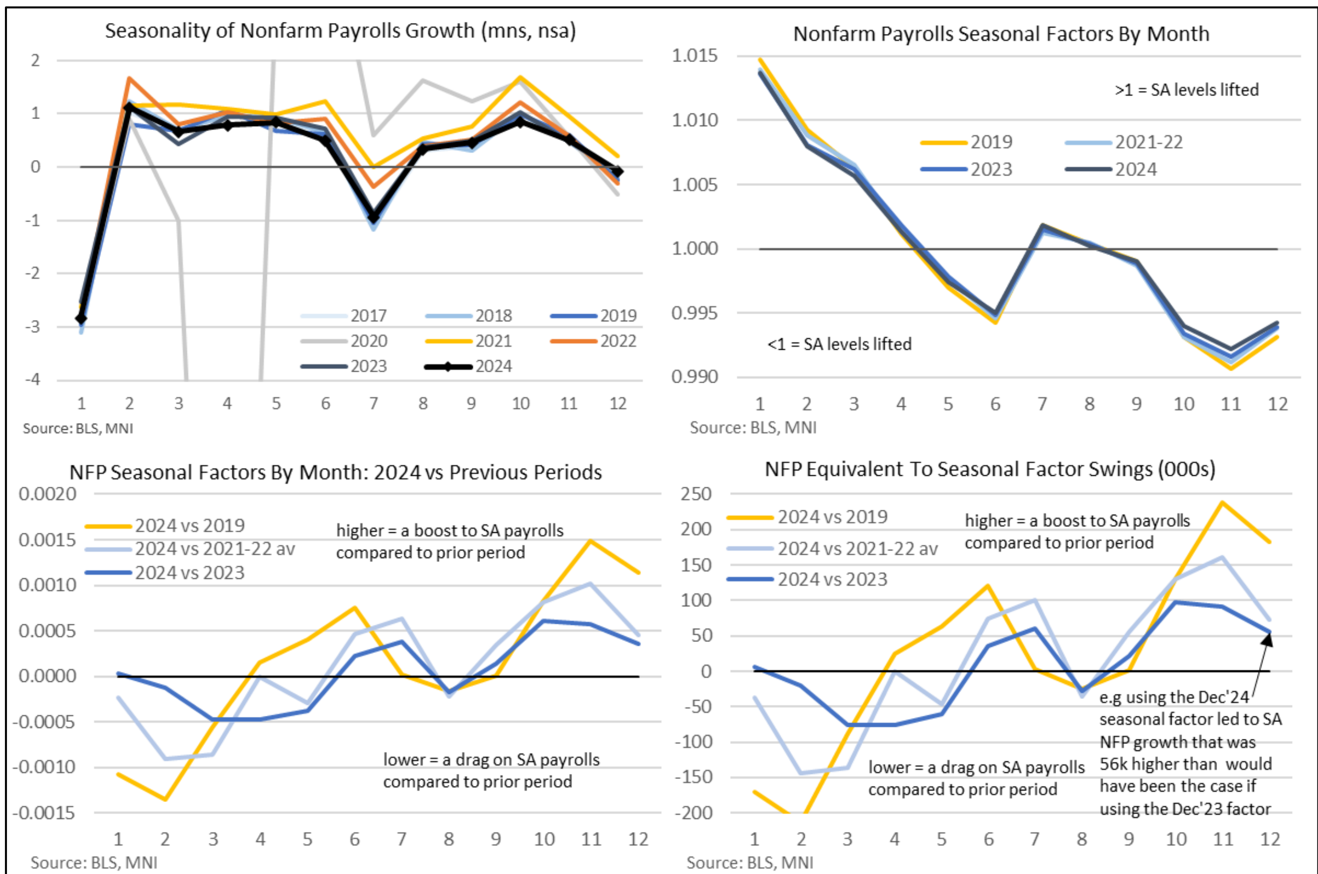
Household survey: new population controls will reflect updated population estimates by the Census Bureau but as usual won't alter historical data. This series break means that changes in employment and unemployment (for example) between Dec and Jan can't be directly compared, although the BLS has in recent years published a table showing what would have happened without the population control effect. Ratios such as the unemployment or participation rates should offer a cleaner read but aren't completely free of distortion, with participation rates

potentially biased higher after strong net migration. With the Census Bureau lifting population estimates by 3.5 million employment is likely to see a significant increase (we've seen estimates between 1.7-2.6 million). Recall that the household survey had new seasonal factors applied last month so there won't be any surprises on that front.

Seasonality Considerations: Risk Of Downward Recent Revisions?

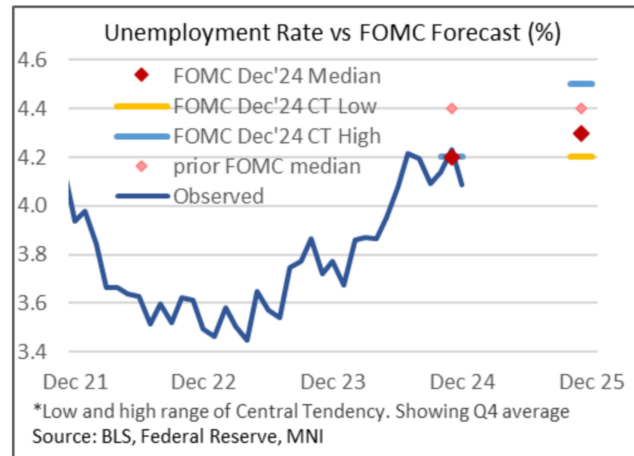
January has a particularly pronounced seasonal pattern with large layoffs following the festive period. There were average job losses approaching 3.0 million in each January through 2017-17 whilst it's been closer to 2.7 million through 2021-24. A reluctance to fire staff amidst historically tight labor market conditions saw just 2.5 million net payroll declines in Jan 2023, driving strong seasonally adjusted payrolls growth, before a more typical 2.8m in Jan 2024. Conditions are looser this time around but the apparent "low hire low fire" approach to employment should continue to help bolster seasonally adjusted payrolls growth for this month at least.

Latest data for January aside, we'll be closely watching the revisions to the seasonal factors over the past five years. As things currently stand, months at the start of the year have been seen less favorable factors than they used to with payback from more favorable factors late in the year. The past three months have seen particularly favorable factors: our calculations show that by using the Dec'24 factor rather than Dec'23 factor (for example), it boosted seasonally adjusted nonfarm payrolls growth 56k higher in Dec and almost 100k in each of the Nov and Oct reports. Those three months coincided with a much stronger than expected December (256k vs cons 165k), an in-line Nov (194k vs cons 205k) and a sizeable miss for Oct (12k vs cons 100k). We don't know how these factors will be revised but our bias is that risks are skewed to the downside for revisions to recent trends for seasonally adjusted payrolls growth.

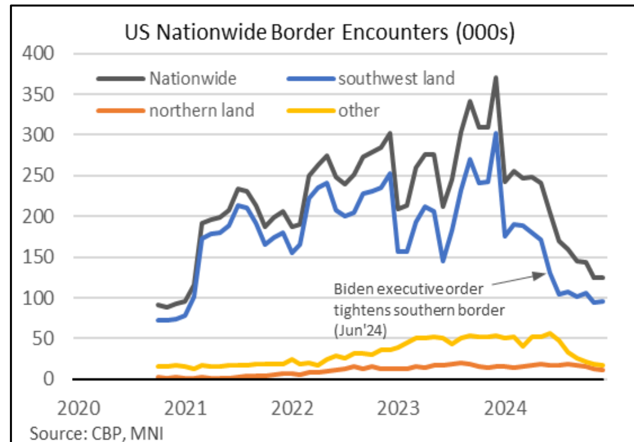


Unemployment Rate Seen Holding Pullback From Recent High

The unemployment rate should continue to offer a good gauge of labor market conditions with the caveat that we'll need to watch for any impact from the aforementioned population control adjustments (which will only affect the rate if there are large differences in new population estimates going towards employed vs unemployed). Consensus is heavily centered around a repeat of 4.1% after it surprised lower in December with 4.09%, pulling back from a cycle high of 4.23% in November with technically its lowest rate since June. The median FOMC member in December saw 4.2% in 4Q24 (it almost undershot with an average 4.15%) before 4.3% in 4Q25. The participation rate meanwhile is seen holding at 62.5% in January as it consolidates a decline first seen in November following a pullback in prime-age participation. Looking at broader trends, labor force growth should continue to slow over time considering the pullback in border encounters since President Biden's executive order tightening the southern border back in June. This decline, with nationwide borders down an average 53% Y/Y in 2H24 comes before any of President Trump's deportation pledges take effect.



*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI



Source: CBP, MNI

AHE Growth Seen Moderating Slightly

Returning to the establishment survey, average hourly earnings (AHE) growth is seen at 0.3% M/M in January, matching the 0.3% in December after what had been a string of robust readings with an average 0.37% M/M through Aug-Nov. It would see the year ago rate ease another tenth to 3.8% Y/Y after last month's decline was exaggerated by rounding (3.93 after 3.97), bringing it to its lowest since June/July and before that mid-2021. We note that the distribution of analyst estimates shows some upside skew but we suspect it would need to be a large beat considering the Fed has for months now assumed the labor market isn't going to be a source of inflationary pressures in the near-term, and it prefers more comprehensive wage measures in any case. As always, the AHE data should be viewed in conjunction with the average hours worked data, seen holding at 34.3 for what would be a sixth consecutive month. There's risk of this surprising lower with LA wildfires more likely to alter hours worked than payroll estimates. The past year saw lows of 34.2 hours which coincided with weather events; another 34.2 wouldn't be hugely notable but anything lower would be significant. 34.3 is still right at the low end of pre-pandemic averages.

Primary Dealers See Hawkish Skew To AHE

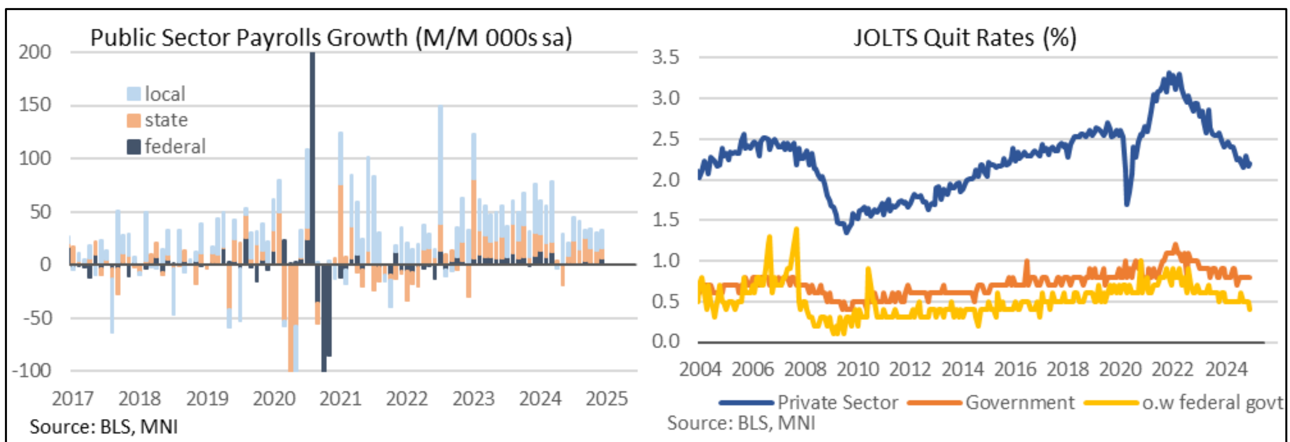
	Payrolls	U/E (%)	AHE (M/M)
Mizuho	135	4.1	0.3
Santander	135	4.1	0.4
HSBC	140	4.2	0.3
Morgan Stanley	140	4.1	0.3
BMO	150	4.1	0.3
J.P.Morgan	150	4.1	0.3
Societe Generale	160	4.1	0.4
BNP Paribas	170	4.1	0.3
Barclays	175	4.1	0.3
Deutsche Bank	175	4.1	0.4
Wells Fargo	185	4.1	0.3
Goldman Sachs	190	4.1	0.3
RBC	190	4.0	0.4
Citi	195	4.1	0.4
BofA	200	4.1	0.4
TD Securities	200	4.1	0.3
UBS	200	4.1	0.3
Scotiabank	205	4.2	0.3
Jefferies	225	4.2	0.2
Nomura	225	4.1	0.3
Median	**180**	**4.1**	**0.3**

Entered in BBG survey or seen by MNI. Missing Barclays & NWM
Red denotes tighter than consensus, blue looser

Federal Worker Forced Layoffs

There have been multiple headlines around Elon Musk-led DOGE's push to reduce federal government numbers, with the Washington Post most recently writing that federal government layoffs are likely if too few choose to quit, with workers given until Thursday this week to decide whether to take an offer to resign now and be paid through the end of September (link here). Outright layoffs could ultimately show in jobs figures in the months ahead but it's unlikely this month. Further, it's worth remembering that public sector payrolls growth may have been providing an outsized impact on total nonfarm payrolls growth for some time but it has been coming from the much larger state and especially local government sectors. There are around 3.0m federal employees, 5.5m state and almost 15m local. As such, whilst

overall government job creation averaged a monthly 32k in Q4 for close to double the 18k averaged in 2019 and treble the 9k averaged through 2017-18, federal-specific job creation has averaged 3k in Q4 for no discernible change from the 2k in 2019. Quit rates are much lower in the public sector than the private sector, at 0.8% as of today's report for Dec (and just 0.4% specifically for federal workers) compared to 2.2% for private, suggesting layoffs could be likely.



Rates Markets Rally Ahead Of Payrolls Release In Potential Short Covering

US policy under the Trump administration remains at the fore but data has still been a significant driver recently. New US-China tariffs are still outstanding and negotiations between the two sides ongoing before retaliatory Chinese tariffs are set to be implemented from Feb 10 having already passed the US deadline for imposing 10% tariffs. The 30-day delay of 25% tariffs on both Canada and Mexico has helped see US yields and the USD index fall notably compared to earlier in the week, with added impetus from softer US data including both Tuesday's JOLTS report and Wednesday's ISM Services. 2Y Treasury yields are currently 11bps below Monday's peak whilst the DXY index has slipped more than 2% from Monday's early high seen after President Trump initial pushed ahead with those penal tariffs. Those Monday highs for the DXY had come close to the mid-January highs last seen in 2022 and before that 2002, driven by the strong payrolls report.

Prior to the latest rally seen on Tuesday and Wednesday this week, the JPMorgan Treasury Client Survey for the week ended Feb 3 showed all-clients having the fewest net longs since December and the biggest outright short since October. Short positions had risen sharply (+10ppts) whilst longs dropped (-8ppts) along with neutrals (-2ppts). This positioning has likely fuelled the rally seen so far this week as shorts were covered, with 10Y yields offering interesting technicals having touched post ISM services lows of 4.41% as they start to look at a notable 4.40% mark with a wide head and shoulders pattern next offering support at 4.3440%.

As for nearer-term Fed monetary policy considerations, a next 25bp cut from the FOMC has recently been seen as around the June or July meetings (currently a cumulative 23bp priced for June). It builds to broadly 50bp of cuts for 2025, back in line with the median dot from the December SEP. The revisions to the data could make it hard to get a clean immediate read on the implications of the January data for monetary policy. But it seems that with rate cuts now being priced out, the FOMC remains more sensitive to downside than upside surprises, after a period in which downside risks to the labor market appeared to have dissipated.

As Powell put it in the December press conference, "we don't need to see further weakening in the labor market to achieve that goal, and that's kind of what we've been getting. The labor market has really been broadly stable, the unemployment rate has been broadly stable now for six months. Conditions seem to be broadly in balance." An in-line report meets these metrics and therefore would not move the needle, but it remains noteworthy that Powell when asked about risks to his assessment noted downside risks to payrolls growth, and the dynamics behind a

rising unemployment rate: "if companies were to start to reduce headcount, you would see unemployment go up pretty quickly, because the hiring rate is quite low".

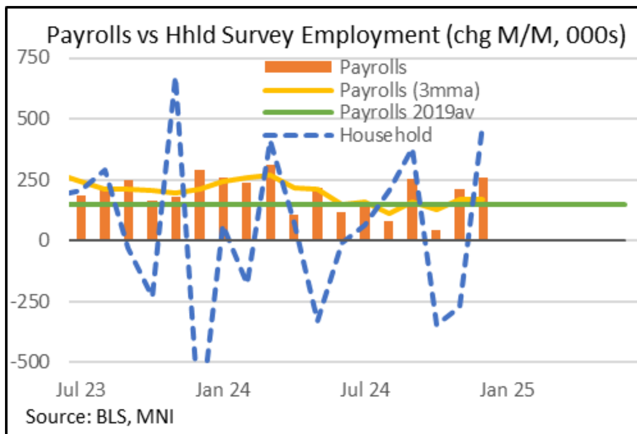
FOMC-dated Fed Funds futures implied rates

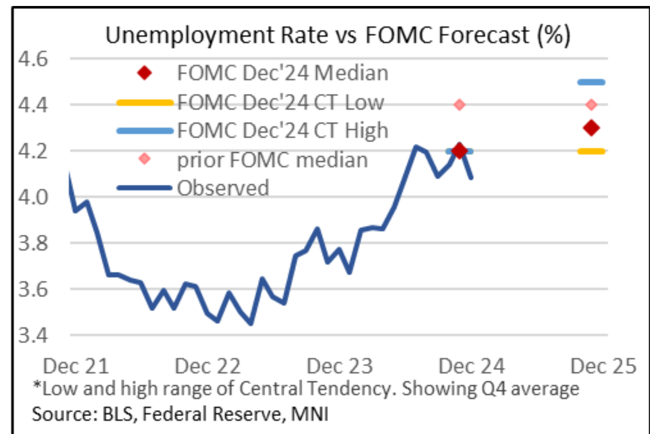
Meeting	Latest			pre ISM services (Feb 5)			*chg in rate*	pre JOLTS (Feb 4)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Mar'25	4.29	-4	-4.3	4.28	-5	-4.9	*0.6*	4.29	-4	-4	*-0.5*
May'25	4.21	-8	-12.0	4.22	-6	-11	*-0.6*	4.23	-6	-10	*-1.8*
Jun'25	4.10	-11	-22.8	4.11	-11	-22	*-0.6*	4.13	-10	-20	*-2.6*
Jul'25	4.04	-7	-29.3	4.05	-6	-28	*-1.1*	4.08	-5	-25	*-4.0*
Sep'25	3.95	-9	-37.9	3.97	-8	-36	*-1.5*	4.00	-8	-33	*-5.0*
Oct'25	3.90	-5	-43.2	3.91	-5	-42	*-1.4*	3.96	-4	-37	*-5.9*
Dec'25	3.84	-6	-49.2	3.85	-6	-48	*-1.4*	3.90	-5	-43	*-6.5*

Source: Bloomberg, MNI.
As of Feb 5, 2025

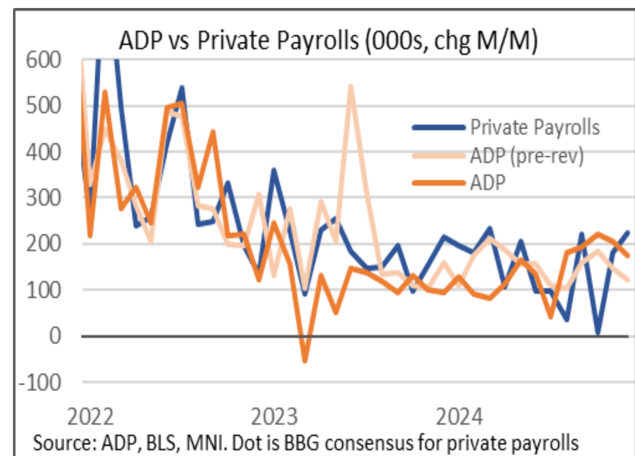
Recent Labor Market Developments

Last month's payrolls recap on how it helped keep prospects of further rate cuts off the table for the immediate future (PDF link here)





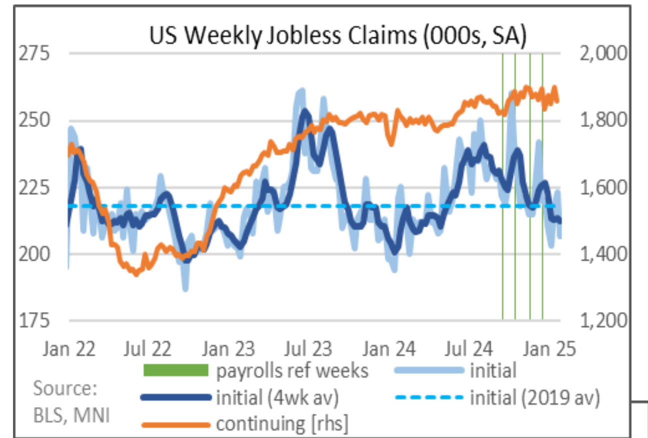
Labor indicators since last payrolls report:



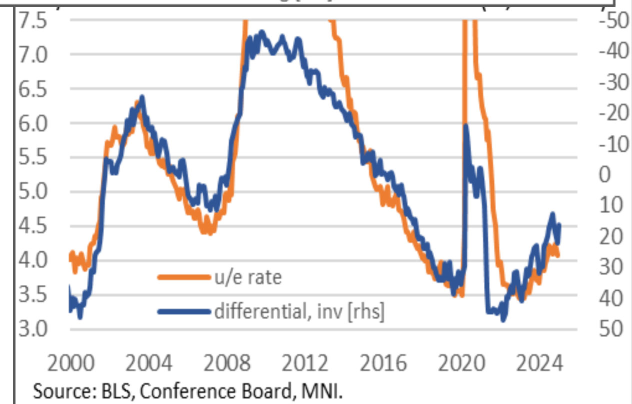
- **Upside (hawkish): ADP employment** was stronger than expected in January at 183k (cons 150k) along with a solidly upward revised 176k (initial 122k) in Dec.
- This upward revision was a small part of far-ranging revisions (more on this below), with ADP employment growth now seen to have averaged 200k in Q4 vs a previously thought 151k. These upward revisions help reduce what was a particularly large undershoot of private payrolls in December, to -47k from -101k at the time.
- Payrolls data are still of course due to extensive revisions on Friday, but in the latest vintages of data, ADP has had a particularly mixed few months as an indicator for private payrolls, undershooting by 47k in Dec having overshot by 22k in Nov and a huge 212k in Oct.
- From the press release: "We had a strong start to 2025 but it masked a dichotomy in the labor market. Consumer-facing industries drove hiring, while job growth was weaker in business services and production."

- Revisions: "The January 2025 report reflects the scheduled annual revision of the ADP National Employment Report. The data series has been reweighted to match annual Quarterly Census of Employment and Wages (QCEW) benchmark data through March 2024. In addition, this revision encompasses an improved labeling model, including updated geographical and industry classifications."

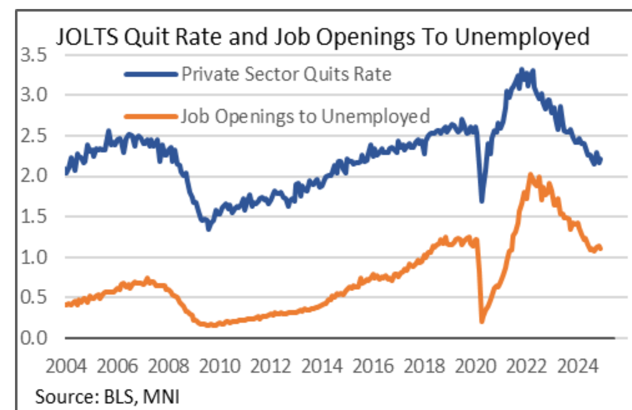
- **Neutral/mixed**: Initial **jobless claims** lifted to 223k in the payrolls reference week, likely biased higher by the LA wildfires after two weeks averaging a seasonally adjusted 210k beforehand. It left it a touch higher than the 220k from the December reference period and 215k in the Nov period. In contrast, continuing claims dropped to 1858k compared to 1897k in both Dec and Nov reference periods. However, with initial claims still close to the 218k averaged in 2019 and since falling back to 207k, the combination supports the "low fire low hire" characterization of the labor market.



- **Downside (dovish)**: The **Conference Board labor market differential** gave back some of its recent gains as it fell from 22.2 (highest since May) to 16.2 (technically lowest since Sept). The perception of jobs plentiful fell from 37% to 33% vs the 46% averaged in 2019 or 40% through 2017-19. By rising again, the differential points to some further trend increases in the unemployment rate although it shouldn't be used as a month-to-month guide.



- **JOLTS openings** were lower than expected in December after an upward revised November, whilst quits rates were little changed but after an upward revised November. Both the vacancy to unemployed ratio and quits rates have broadly stabilized since June, with quits in particular on the lower side historically.
- JOLTS openings were lower than expected in Dec at 7.6m (cons 8.00m) after an upward revised 8.156m (initial 8.098m) in Nov.
- Ratio to unemployed: 1.10 after 1.15 (initial 1.14). It has averaged 1.1 since June, recently seeing a low of 1.07 in September. The ratio on the month was biased higher by the already known sharp -235k drop in unemployment back in Dec. It clearly remains low by recent standards, below the 1.19 seen in 2019 although is still elevated vs pre-pandemic years such as the 1.00 averaged in 2017-18.
- Quits rate at 2.00% after an upward revised 1.97% (initial 1.92). Just like the vacancy to unemployed ratio has stabilized since June, the quits rate has averaged 2.0% over that period. Its most recent high was 2.06% back in Oct after a rare rounded increase but these are still low levels historically, having averaged 2.33 in 2019 and 2.20 in 2017-18. The private quits rate sees a similar trend, at 2.21% after 2.17% (initial 2.12%).



Selected Sell-Side Views

Ranked from largest to smallest NFP figure:

StanChart on NFP technical details:

- "In its latest US population estimate at the end of 2024, the Census Bureau raised the estimate by 3.5mn versus 2023, primarily to reflect a surge in immigration. Some of the adjustment will show as higher population in years prior to 2024 – in fact, the biggest increase in population growth (and employment) relative to current estimates is likely to be in 2023."

- The BLS annually benchmarks the population estimate in its household survey using the Census Bureau's Current Population Survey (CPS) estimate. The upward revision of the total population means that household survey (HH) employment levels since the pandemic are likely to be raised by a cumulative 1.7mn. When HH employment is recalculated using NFP concepts, we estimate that the immigration adjustments will narrow the end-2024 gap between HH employment and NFP by 1.6mn."
- "In addition, according to BLS estimates in August 2024, March 2024 NFP is likely to be revised down by 818k after benchmarking to the Quarterly Census of Employment and Wages (QCEW). However, further QCEW revisions since August make a 670k downward NFP revision more likely, so the overall gap between NFP and CPS (as of end-2024) will be reduced to about 2mn from 4.3mn."
- "The adjustment is unlikely to change the unemployment rate significantly. The BLS keeps the employment and participation rates constant at the most disaggregated level when revising the total population; the impact on the unemployment rate should be marginal unless the labour market composition has shifted significantly and those demographic segments differ widely in their employment and participation rates."

Jefferies: Easily The Most Difficult Month Of The Year To Forecast

- Jefferies see above consensus NFP growth of 225k (private 210k) in January.
- Their caveats: "January is easily the most difficult month of the year to forecast and interpret the Current Employment Situation (CES) report. There are major revisions that apply to many, but not all of the details, and the seasonal turnover rate for payrolls is the highest of any month of the year."
- "The employment data is always a risk event for the markets, but the data does not seem likely to alter the Fed's stance on monetary policy after Powell repeated that he and his colleagues were in "no hurry" to move forward with additional rate cuts. The inflation data remains top of their list."
- "January is consistently the highest turnover month of the year for the labor market. NSA payrolls consistently drop around 2.6-2.9 million during the month. The seasonal adjustment factor adds back in roughly 3.0-3.1 million jobs to give us the headline print. By definition, the high degree of seasonality increases the risk of error in this process. When this type of error has no skew, it isn't worth worrying about too much. However, for some data series, there errors can consistently skew in one direction, displaying residual seasonality. Looking back at recent years, seasonally-adjusted January payrolls have been consistently strong, and we have taken this into account in our forecast. The BLS is going to publish revised seasonal factors with this month's report, and it is possible that they make an adjustment that offsets this seasonal trend. However, we do not expect that the adjustment will fully eliminate this residual seasonality."

ABN AMRO: Expecting A Relatively Solid Print For January

- ABN AMRO sees "relatively solid" NFP growth of 200k in January "against the backdrop of a significant, but anticipated, downward revision of the employment level."
- "Last year's preliminary estimate of a downward revision of 818k will be incorporated as of this week's report. Further revisions to the survey extrapolation methodology could leave the December level between 900k and a million jobs lower than in the last December report we received at the beginning of January. This revision also leads to particular uncertainty about this month's NFP increase."
- "The household survey will similarly be updated, and in contrast, will likely show an increase in the population due to higher net immigration. The unemployment rate might tick up to 4.2% as the initial signs of weaker government hiring (or active dismissal) are starting to show.

BofA: Watching Revisions To Recent Trends, Not So Much Benchmark Revisions

- BofA forecast NFP growth of 200k in January after a three-month average of 170k.
- "A wide array of factors, including i) the wildfires in LA and snowstorms in the Midwest and South, ii) potential residual seasonality, iii) the benchmarking of the establishment survey, and iv) the population update to the HH survey, will impact the Jan jobs report."
- They see the LA wildfires dragging 15-20k in January, based on claims data, evacuation numbers during the reference week and the fact that this was an urban fire (as opposed to previous major wildfires, which have impacted rural areas).
- "The snowstorms occurred just before the reference week, hence will likely not have much of an effect."
- "Seasonal factors have been gradually catching up to the trend of fewer January layoffs. Even so, in the last two years, job growth in the month of January was substantially stronger than the average of the remaining 11 months. We think residual seasonality should still be favorable in January, adding about 40k to nonfarm payrolls."

- Benchmark revisions shouldn't alter recent trend: "The benchmark will revise the level of nonfarm payrolls through March 2024 based on the QCEW. It will also re-scale payroll growth in the remaining months (Apr-Dec 2024) based on the establishment survey sample." The preliminary estimate suggested -818k (~0.5%) although subsequent QCEW revisions point to -700k (~0.4%). "Our analysis suggests this markdown will be concentrated in 2H 2023. Payroll growth for 1Q 2024 will likely only see minor revisions, and we think that should carry over to 2Q-4Q 2024. In other words, recent job growth shouldn't be significantly impacted by the annual benchmark. That is the most important takeaway for the economic outlook."
- "In terms of revisions, the QCEW-based markdown is already baked into the Fed's outlook. The focus will be on revisions to the more recent data. As long as they aren't too large (<40k per month), and as long as the recent trajectory (a pickup late in the year after the soft patch in the summer) is preserved, policymakers won't be too fussed."
- "Finally, in terms of the household survey, we should get a relatively clean read on the unemployment rate. A large pickup that pushes the rate closer to 4.3% would increase the chances of additional cuts. But another decrease would give the Fed greater confidence that the labor market has stabilized around full employment."

Citi: Low Churn Labor Market Isn't A Healthy One, To Become Evident In Spring

- Citi see payrolls growth of 195k in January and the u/e rate remaining at 4.1% having been surprised by the strength of recent employment data. "This strength could largely reflect issues of seasonal adjustment that have led to consistently strong January employment data post-pandemic."
- "A downside surprise to January employment could be dismissed as the effect of LA fires or cold weather, but we think the impact on payrolls from these factors should be small."
- "But despite stronger January data, we have not seen much evidence to suggest that the recent labor market dynamic of very low hiring, quits, but also low layoffs has changed. We continue to think that a low-churn labor market is not a healthy labor market and expect this weakness to become more evident in the spring. We continue to expect 125bp of cuts from the Fed this year."
- Benchmark revisions to March 2024 level: "These revisions adjust survey-based employment estimates to official data on payroll employment levels based on tax filings (QCEW data). Employment after March will not be benchmarked to official data but will still be revised based on updated seasonal factors. Preliminary estimates from the BLS implied an 818k downward revision to employment as of March, but revisions to Q1 QCEW suggest this could be closer to a still-substantial 700k downward revision in the final benchmarking."
- They see AHE growth of 0.4% M/M in Jan after 0.3% in Dec. "Fundamentally, a loosening labor market should continue to imply easing wage pressures this year, with the ECI having slowed to 3.2-3.7% annualized in H2 2024. But average hourly earnings have also exhibited seasonal strength in January, similar to jobs and price inflation data. Wage increases could again be on the stronger side this year, although we do not expect an increase in average hourly earnings as strong as the 0.5% increase last year, implying that the year-on-year rate should fall to 3.8%."

GS: Healthy Big Data Indicators vs Wildfires and Weather Drags

- Goldman Sachs estimate NFP growth of 190k in January.
- Upside drivers: "Big data indicators indicated a healthy pace of job creation and the pace of layoffs—a particularly important determinant of net job growth in January—remained subdued. Additionally, we expect continued above-trend (albeit moderating) contributions from the recent surge in immigration and catch-up hiring."
- Downside: "We assume that the Los Angeles wildfires and colder-than-usual weather will each subtract 20k from January job growth. We assume the weather headwind will disproportionately impact the construction, leisure and hospitality, and other services categories."
- "The report will be accompanied by the annual benchmark revision to nonfarm payrolls. The BLS's preliminary estimate of the benchmark indicated that cumulative payroll growth between April 2023 and March 2024 would be revised 818k lower, though we see the revision as partly misleading, as it will likely exclude 300-500k immigrants who were not authorized to work but were correctly picked up in payrolls initially."
- They see the u/e unchanged at 4.1% on a rounded basis whilst the participation rate increased by 0.1pp to 62.6%. "The report will be accompanied by updated population controls, which we expect to lead to the largest upward revisions on record to the level of the population (+3.5mn), the labor force (+2.5mn), and

household employment (+2.3mn). On net, we expect these revisions to put modest upward pressure on the participation (+0.11pp) and unemployment (+0.04pp) rates via a composition effect."

- They see AHE growth of 0.3% M/M sa, "reflecting negative calendar effects but a modest boost from the tail end of start-of-the-year wage increases."

Commerzbank: Headline Figures Mask Certain Signs Of Weakness

- Commerzbank expect NFP growth of 170k in January, "a somewhat smaller increase" than December for closer to the trend
- "The unemployment rate has stabilized at around 4%, which is roughly the level that is considered consistent with stable prices over the long term. As in the previous month, the rate is expected to be 4.1% in January."
- "However, these headline figures for the labor market mask certain signs of weakness. For example, job growth is concentrated in a few sectors such as education, health and government. In addition, the labor market has become more rigid. Companies are hiring few new employees, but they are also laying off extremely few. In addition, fewer employees are now voluntarily quitting their jobs. In any case, as Fed Chairman Powell regularly points out, the labor market is now less tight than it was immediately before the pandemic. At that time, the unemployment rate was 3.5%."
- "Accordingly, wage pressure continues to ease. We consider the AHE published in the employment report to be a less meaningful indicator, as it is influenced by the composition of the workforce. The Atlanta Fed's median wage, which is released about a week later, provides a clearer picture. Here, the year-on-year increase slowed to 4.2%, which means it is hardly any stronger than before the pandemic. The Federal Reserve is therefore likely to lower interest rates a little more, albeit at a slower pace than before."

Wells Fargo: Continuation Of Softer, But Not Alarmingly So, Labor Market

- Wells Fargo look for NFP growth of 185k in January, "a slowdown from November's and December's robust gains but a faster pace than averaged over the second half of 2024."
- "We suspect the January jobs report will continue to indicate the labor market has softened over the past year, but not to an alarming degree."
- "Colder-than-usual temperatures throughout much of the country in January likely weighed on hiring in more seasonally sensitive industries, such as construction and leisure & hospitality. Meantime, the jump in jobless claims during the survey week points to the devastating L.A. wildfires also taking a toll on hiring in January."
- "Still, the background is ripe for another month of decent job growth. The downward slide in labor demand is showing nascent signs of leveling off (chart), and layoffs remain historically low. The low-layoff environment has helped the past years' January prints handily beat expectations, in our view, as seasonal adjustment factors "expect" to see more employees roll off at the start of the year than has been the case."
- They see the u/e rate steady at 4.1% whilst AHE likely advanced 0.3% M/M, "underscoring that even as price growth remains stuck above target, the labor market is no longer a threat to the inflation side of the Fed's mandates."

Westpac: Partial Reversal Of December Strength Possible, But Could Be Delayed

- Westpac see NFP growth of 170k in January.
- "In January, a partial reversal of December's strength is possible, although equally as likely is that it might come in February and March -- volatility is often high over the turn of the year."
- "Regardless, balance between labour demand and supply continues to be seen, and wage growth is responding, slowly returning to average rates."

ING: Not Expecting Much Impact From Wildfires

- ING anticipate NFP growth of 160k in January for a return to the underlying trend pace of job growth. "Over the past three months, non-farm payrolls have averaged 170,000 jobs, including the uptick in December, when a net of 256,000 new jobs were added."
- "Job gains have shown signs of stabilization, and the weekly jobless claims series have trended near 214,000 in the past four-week average, compared to a pace of 223,000 in December, indicating minimal change. Importantly, we observe limited impact from the California wildfires, as the damage was primarily in residential areas, with businesses appearing to be less affected. The lack of any rise in the jobless claims series implies minimal job losses."

SEB: Expect Employment Growth To Stabilize Somewhat Below Pre-Pandemic Pace

- SEB forecast NFP growth of 160k in January.
- “Firing remains low but small business hiring intentions and indeed job postings suggest stabilising demand for workers. Household surveys show that it has become harder to find a new job, however.”
- “We expect employment growth to stabilise somewhat below the pre-pandemic pace and unemployment to remain low and close to the Fed’s median estimate for the longer run (4.2%).”
- “Large seasonal adjustment makes January data more uncertain. The California fires may also distort the data.”
- “As usual in January, the BLS will benchmark March 2024 employment to more comprehensive data. The preliminary report showed the largest downward revision (-818k) since 2009. These revisions will affect birth-death estimates for March 2024 onward too. The household survey will incorporate new Census Bureau population estimates; historical data is usually not revised which results in breaks in the data in January.”
- “Employment in the establishment and household surveys diverged strongly last year but may become better aligned after the revisions. For the Fed, recent data should be more important.”

JPMorgan: Potential Payrolls Drags From Wildfires And Weather

- JPMorgan forecast NFP growth of 150k in January (private 115k), whilst the unemployment rate held steady at 4.1%.
- They see a couple specific drags for January payrolls compared to a prior strong trend:
- i) “Initial jobless claims jumped 6k in Los Angeles County in the payroll week (the week including the 12th of the month), almost certainly owing to the LA wildfires.” Whilst the spike only lasted one week and “probably isn’t as severe as from some recent hurricanes in Texas and Florida”, they assume a 25k drag on payrolls.
- ii) “Weather could also weigh on employment. After adjusting for normal weather patterns the weather turned slightly colder between the December payroll week and the January one. In December, heating degree day deviations were +2 in the week ending December 14, but +8 in the week ending January 11 and +10 in the week ending January 18. We assume a 15k drag from weather, which tends to hurt industries like construction and leisure and hospitality.”
- “We expect trend-like growth of 35k in government. The new administration is seeking to reduce federal employment, and some workers may have decided to leave in advance, but most government jobs are at the state and local level, and there usually aren’t unusual moves in January just before the a new administration comes in.”
- On the annual benchmark revision to the establishment survey and the annual update of population controls in the household survey: “We estimate that will include a ~675k downward revision to the level of nonfarm payroll employment as of March 2024, whereas we estimate that the level of household employment at year-end 2024 will be revised up by 2.6mn, with little change in the unemployment rate.”

HSBC: Wildfires May Have Some Downward Impact But Impact To Be Clearer With A Lag

- HSBC expect NFP growth of 140k in January.
- “The Los Angeles County wildfires that commenced on 7 January led to hundreds of thousands of persons placed under evacuation orders. Given the timing and geographic details, the wildfires may have some downward impact on reported employment in January (the impact will likely become clearer with a lag, when state employment and metropolitan area employment figures are released in future reports).”
- They expect AHE growth of 0.3% M/M (Y/Y falls a tenth to 3.8% Y/Y).
- They see the u/e rate rising a tenth to 4.2% whilst the participation rate is unchanged at 62.5%.
- “As per usual, this January release will also include new population controls for the household survey (likely resulting in a jump higher in population and related estimates) and the annual benchmark process for the establishment survey. The preliminary benchmark estimate for the establishment survey showed a -818,000 downward adjustment to the March 2024 level of nonfarm employment.”

MNI Policy Team Insights

MNI INTERVIEW: Trump Tariffs Risk Killing Factory Recovery-ISM

By Evan Ryser (Feb 3, 2025)

WASHINGTON - U.S. manufacturing in January expanded for the first time in 26 months and will likely continue growing slowly in the coming months, but President Donald Trump's tariffs are a major uncertainty that height the risk of a contraction, ISM survey chair Timothy Fiore told MNI Monday.

The ISM manufacturing composite in January increased 1.7pp to 50.9, above market expectations. The PMI reached expansionary territory for the first time since October 2022 and the composition of the report was strong as the new orders, production, and employment components all increased.

"Demand appears to be coming back. Clearly, activity is moving in the right direction," Fiore said in an interview after Trump announced a one-month pause of 25% tariffs on Mexican imports after an agreement on border troops. Fiore said he expects the tariffs on Mexico and Canada would not be in place for a long time, while those on China may remain in place for some time, but he said it was too soon to get a good handle on how the disputes will play out.

"The reality is that tariffs have the potential of knocking everything off track. There's no doubt about that," said Fiore. He noted an eight point decline in the ISM PMI from mid-2018 to mid-2019 after Trump implemented tariffs in his first administration.

DOWNSIDE RISKS

Fiore suggested his baseline outlook sees one or two 25 basis point cuts from the Federal Reserve sometime later this year, but there's also a risk of the Fed's needing to lower rates more quickly.

"These tariffs are roughly three times worse than the last ones, so on that basis, they're gonna have a much more accelerated effect. It could very well be that tariffs cause the Federal Reserve to cut rates," he said. "We could slow the economy down so bad that he's got to cut the rates to keep it from collapsing."

In the months ahead, Fiore expects "February will be better" and growth is going to be "slow" in coming months. "I'm not expecting a faster grow out and I'm not sure what would drive a faster grow out."

The January ISM report showed the employment subindex increasing 4.9pp to 50.3. Survey panelists "feel that they're right-sized," Fiore said. "We're probably at a new baseline, and now we need to look for growth as the production number grows too."

The prices subindex also showed quicker price growth, increasing 2.4pp to 54.9, primarily due to elevated natural gas prices. "That kind of fits well with the fact that the Federal Reserve held on cutting rates last week," Fiore said. (See: MNI INTERVIEW: Fed Rates Likely On Hold Through 2025-Croushore)

"You got prices going up and demand is just coming back. Those two are going to work against each other," Fiore said. "That is going to give (Fed Chair Jerome) Powell a hard time for further rate reductions."

MNI INTERVIEW: Fed Rates Likely On Hold Through 2025-Croushore

By Pedro Nicolaci da Costa (Feb 3, 2025)

WASHINGTON - The Federal Reserve might not cut interest rates at all this year because inflation looks poised to tick up again, Philadelphia Fed visiting scholar Dean Croushore told MNI.

“I see inflation drifting up through the next six months to a year,” he said in an email exchange. “It is most likely that rates stay still for the year. The overall strength of the economy will keep inflation pressure up.”

Fed Chair Jerome Powell said last week the central bank is in no hurry to cut interest rates and needs to see more progress on inflation, but he added that “we seem to be set up for further progress.”

Croushore doubts such optimism is warranted given the robust growth backdrop and high fiscal deficits.

“His use of the term ‘set up’ to me means ‘it may not happen, but could’,” he said. “I think the Fed over the past two years is guilty of wishful thinking about inflation, believing it will decline more than turned out to be the case.”

Given that record, he added, “they shouldn’t cut rates more, unless inflation really comes down.” (See MNI INTERVIEW: Fed Won't Consider Cuts 'Til At Least May-Groen)

The Fed’s preferred PCE inflation measure rose 2.6% in the year to December, while core PCE climbed 2.8%. The 0.2% monthly increase was seen as benign but the annual rate is still well above the 2% target.

FISCAL DOMINANCE RISK

Policy proposals from the Trump administration could further fuel inflation pressures, added Croushore, who spent 14 years at the Philly Fed as a staff economist and is now a professor at the University of Richmond.

“Tax cuts and bigger budget deficits are likely and may contribute to higher inflation,” he said. “The question is whether bad government policies like tariffs will derail the economy.”

Croushore also worries about the threat to Fed independence under a vocal Trump administration.

“Fiscal dominance is a major concern. If deficits get bigger as a share of GDP, the Fed will need to tighten a lot in coming years. Will they? They must, if they want to survive. It’s a difficult time for policymakers,” he said.

The next move on official interest rates, which the central bank held steady at 4.25-4.5% at its latest meeting, could just as well be down as up, he said.

“If inflation rises too much, the Fed could reverse course and raise rates. But if inflation stabilizes or drifts down a bit, they’ll cut some and will look for any signs that help them do so,” said Croushore.

MNI INTERVIEW: Fed Won't Consider Cuts 'Til At Least May-Groen

By Pedro Nicolaci da Costa (Jan 30, 2025)

WASHINGTON - The Federal Reserve is likely to keep interest rates on hold again at its next meeting in March if not for longer as it awaits further improvement in inflation data, former New York Fed economist Jan Groen told MNI.

"May would be the earliest opportunity for them to maybe reconsider cuts," said Groen in an interview Thursday. "Two rate cuts is the upper bound of what they could achieve this year."

Groen is less sanguine than Fed Chair Jerome Powell that the inflation trend will become more benign in the first half of this year. The Fed chief has emphasized the expectation that shelter costs will gradually cool, but Groen cited a number of countervailing factors, including the possibility that Trump's tariffs will have a more lasting effect than expected.

"If you look at surveys, market commentary, people are building into their outlook a kind of inflation risk premium based on all the fears about tariffs and things like that. The UMich longer-term survey inflation expectations survey, if you look at like the distribution of the responses, really shot up a lot half of 2024," he said.

At the same time, Groen thinks the FOMC has been too quick to dismiss the ongoing threat from wage pressures to inflation.

"Everybody seems to say that wage growth has weakened a lot, but it's still very robust," he said, adding that it's "still running at a pace that's higher than what you would expect to be in line with 2% inflation over the medium term. So there are other factors that push in the opposite direction of housing services inflation."

Fed Chair Powell said during his press conference Wednesday that the economy seems "to be set up for further progress, but being seem to set up for it is one thing but having it is another." The central bank kept rates on at 4.25-4.5% Wednesday, while indicating policymakers are in no hurry to cut again.

EXTENDED PAUSE POSSIBILE

If the inflation data remain stubborn through the first half of 2025, officials might choose to stop cutting rates altogether, Groen said.

"If by the midpoint of the year you're still uncertain then it's almost certain that you're just going to sit tight where you are and ride out the end of the year," he said. (See MNI INTERVIEW: Fed On Hold, Next Move Could Be Hike-Andolfatto)

One dovish aspect of Chair Powell's press conference was his assurance that he still believes policy is "meaningfully restrictive," indicating he still sees several more rate cuts before getting to neutral.

In contrast, Groen believes policy is "just about" restrictive, with years of loose U.S. fiscal policy having raised the neutral rate of interest.

"Fiscal policy being on a less sustainable plan probably made Treasuries a less appealing safe asset, meaning that the relative demand for Treasuries has gone down. Of course, the supply has gone up, because higher deficits means issuance of more bonds, so that in itself is a force that, all else equal, would push up r-star," he said.

MNI POLICY: Fed To Hold Door Open To Steady Rate Cut Path

By Pedro Nicolaci da Costa and Jean Yung (Jan 28, 2025) – written prior to the FOMC decision on Jan 29

WASHINGTON - Federal Reserve officials this week will leave the door open to resuming interest rate cuts as soon as March but will also signal a higher bar for reductions amid signs that inflation could be stuck uncomfortably above its target.

While investors have sharply pared back expectations for Fed easing and do not see another rate cut until summer, the central bank won't close the door to rate cuts at any of its forthcoming meetings.

Rather than dwell on upside price risks, which include changes in trade and immigration policy from the new Trump administration, policymakers are inclined to express continued confidence that the disinflation process will persist.

Fed officials largely agree wage pressures are not a major contributor to inflation, and are not worried that strong labor market data could spark a new bout of inflation. They are also comforted by the expectation of decelerating shelter inflation and lower market-based measures of inflation. Most FOMC members also believe policy is still restrictive even in the face of strong economic growth.

Supporting a more sanguine view of inflation pressures, core CPI inflation slowed on a monthly basis to 0.2% in December after several months of 0.3% increases. Core PCE inflation is also expected to come in at 0.2% for the month, which would be the sixth reading at or below 0.2% in the last eight months.

Officials are focused on shorter-horizon measures in order to weed out potentially deceptive base effects in the annual data. But if core PCE inflation stays subdued, even the 12-month measure could be on track to fall to 2.2% by the March meeting.

HIGHER BAR

This does not mean policymakers are not attentive to lingering upside risks to inflation. This week’s decision will likely be accompanied by a clear message that more progress is needed before the Fed resumes cutting borrowing costs again.

Minutes from the December meeting showed participants said “the overall pace of disinflation had slowed over 2024 and that some recent monthly price readings had been higher than anticipated.” (See MNI INTERVIEW: Fed's Easing Bias No Longer Justified-George)

Consumers' one-year inflation expectations rose to 3.3% this month from 2.8% in December and are now above the 2.3%-3.0% range seen in the two years before the pandemic, according to the University of Michigan's Surveys of Consumers. Survey respondents cited worries over higher prices if President Donald Trump makes good on promises to impose tariffs on imports.

The FOMC is treading cautiously because it's uncertain how -- or when -- trade, immigration, tax cuts and deregulation will impact the economy and inflation.

DISAGREEMENT ON NEUTRAL

Even some of the more hawkish Fed officials are hopeful that disinflation will persist. But they believe the neutral rate of interest has risen enough that the Fed is already getting close to it. The top of the range of estimates of neutral is 3.9%, just half a percentage point below the current target range for the fed funds rate.

“I am fairly optimistic that inflation will continue to move in the right direction,” said Kansas City Fed President Jeffrey Schmid in a speech earlier this month. Even so, he argued “we are near the point where the economy needs neither restriction nor support and that policy should be neutral.”

The more dovish camp, in contrast, sees room for several more cuts because they do not believe the neutral rate has climbed all that much. The median FOMC estimate of neutral is nearly 150 bps lower.