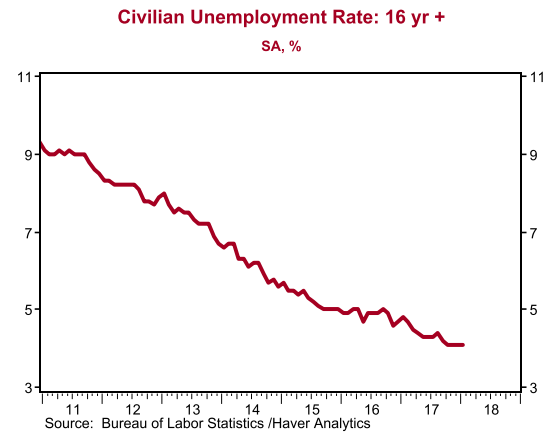
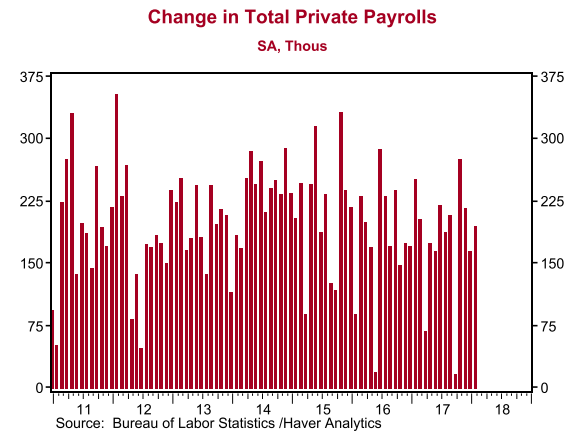


January Employment Report

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- Nonfarm payrolls rose 200,000 in January, beating the consensus expected 180,000.
- Private sector payrolls rose 196,000 in January. The largest increases were for education & healthcare (+38,000), construction (+36,000), and restaurants & bars (+31,000). Manufacturing increased 15,000 while government rose 4,000.
- The unemployment rate remained at 4.1%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in January and are up 2.9% versus a year ago.

Implications: We've been waiting for faster wage growth and now we have it. Average hourly earnings rose 0.3% in January and are up 2.9% in the past year, the largest twelve-month increase since 2008-09. The difference is that, back then, wage growth was decelerating and now we have wage growth that's accelerating instead. Look for more acceleration in the months ahead as the effects of lower tax rates (particularly on companies) and deregulation ripple through the economy, encouraging more investment in the US. Job growth was strong in January, as well, with nonfarm payrolls up 200,000 and civilian employment, an alternative measure of jobs that includes small-business start-ups, growing 409,000. In the past year, these two measures of jobs are up 176,000 and 196,000 per month, respectively, and we expect more of the same in the year ahead. Although the unemployment rate stayed at 4.1%, that was due to a 518,000 increase in the labor force, which is welcome news. In the past year, the labor force has increased an average of 116,000 per month. Despite the growing labor force, we expect the unemployment rate will decline to 3.6% by year end, which would be the lowest since 1969. And in 2019, we should see the jobless rate fall to 3.2%, the lowest level since the early 1950s. The worst part of today's report was a 0.5% drop in hours worked. However, we think that was likely weather-related and will reverse in February. The civilian employment measure of workers missing work due to weather was the second highest for any January in the past 20 years. Despite the drop in hours, total earnings, which combines the total number of hours worked and average hourly earnings, is up 4.3% from a year ago, suggesting plenty of growth in consumer purchasing power even before tax cuts kick in. In other recent news, automakers reported selling cars and light trucks at a 17.2 million annual rate in January, down 3.9% from December and down 1.6% from a year ago. Given the unusual strength of auto sales in the last few years, sales this year should continue to lag levels hit in 2016-17 as consumers shift their purchases toward other sectors. Meanwhile, the economy keeps chugging along. It's early, but the data we have so far suggest real GDP is growing at about a 4% annual rate in the first quarter of 2018. Put it all together and it looks increasingly likely the Fed will raise rates four times in 2018.



Employment Report <i>All Data Seasonally Adjusted</i>	Jan-18	Dec-17	Nov-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.1	4.1	4.1	4.1	4.2	4.3
Civilian Employment (monthly change in thousands)	409	104	71	195	153	196
Nonfarm Payrolls (monthly change in thousands)	200	160	216	192	180	176
Construction	36	33	42	37	28	19
Manufacturing	15	21	30	22	22	16
Retail Trade	15	-26	27	6	5	-3
Finance, Insurance and Real Estate	9	6	9	8	9	10
Professional and Business Services	23	25	16	21	32	37
Education and Health Services	38	39	38	38	32	39
Leisure and Hospitality	35	37	20	31	22	29
Government	4	-6	-1	-1	0	1
Avg. Hourly Earnings: Total Private*	0.3%	0.4%	0.3%	4.1%	3.1%	2.9%
Avg. Weekly Hours: Total Private	34.3	34.5	34.5	34.4	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	-0.5%	0.2%	0.5%	0.7%	1.1%	1.4%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized