First Trust
Monday Morning OUTLOOK

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Not All That

Nothing is normal about the current business cycle; it really is unique. It started with a massive COVID-related lockdown, which caused the deepest and fastest recession on record. Then we had a recovery based on re-opening plus an unprecedented peacetime expansion in government spending. But rarely have we seen an economic report as misinterpreted as Friday's jobs report.

The key headline that investors and analysts rejoiced about was the 467,000 increase in nonfarm payrolls, not only well above the consensus expected 125,000 but also well above the highest forecast from any economic group. And if that were the only piece of information in the entire report, it would make sense to celebrate.

But there are plenty of other key pieces of data in every jobs report. One of them is the number of hours worked and that part of the report was not strong at all. Average weekly hours per worker declined to 34.5 in January from 34.7 in December. As a result, the total number of hours worked fell 0.3%, the largest decline in almost a year.

If that 0.3% drop had come in the form of fewer jobs while the number of hours per worker didn't change at all, private payrolls would have declined about 350,000 in January. Obviously, in that scenario, many of the investors and analysts who cheered Friday's report would have been jeering, instead. And, yet, both situations have the same exact demand for total hours from workers by businesses across the US.

But what about the huge 709,000 upward revisions in payrolls in November and December? Usually we're big fans of including revisions for prior months when assessing a payroll report. However, the January report every year is different. It's the one time a year when those revisions should be ignored. Why? Because it's the month when the Labor Department goes back and revises monthly seasonal adjustment factors for the whole calendar year. This year, November and December figures were revised up substantially, but all those gains came out of June and July, which were revised down.

But how about those stellar numbers from the other part of the employment report? Civilian employment, an alternative measure of jobs that includes small-business start-ups, rose almost 1.2 million in January, appearing to confirm the strength of the headline growth in payrolls. Meanwhile, it looked like the labor force (the number of people working or looking for work) grew almost 1.4 million.

However, once again, a statistical quirk was at work. Every January, the Labor Department inserts into the jobs report new Census Bureau estimates on the total size of the US population, which, in turn, affects the numbers on the labor force and employment. That population adjustment was responsible for all the increase in civilian employment and the labor force in January; without that quirk, Labor would have reported a 272,000 drop in civilian employment and a 137,000 decline in the labor force.

But what about the increase in wages? Average hourly earnings grew 0.7% in January. That's certainly a rapid pace and very likely outpaced inflation in January. But these wages are up only 5.7% in the past year, which is almost certainly slower than inflation over the same twelve months and which is no reason to celebrate.

We are not asserting the January jobs report was "bad" news, that the US is teetering on the edge of a recession, or that the Federal Reserve should call off its intention to raise short-term rates, stop Quantitative Easing, or start Quantitative Tightening.

Far from it. We expect continued job growth in the months ahead and a rebound in hours worked. The Fed was behind the inflation curve before Friday's report and still is today. We still expect rate hikes starting in March – we think 25 basis points, although the futures market is pricing in a significant shot of 50 – as well as an end to QE in March and a start to QT around mid-year.

But we've never been shy about bucking the conventional wisdom when we think it's wrong and we're not about to start: Friday's jobs report was mediocre, not the very positive news most investors and analysts thought it was. We expect that the year or two ahead will have multiple occasions like this; both when we think the data are worse than others think, as well as when we think it's better. We will tell you every time.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-7 / 2:00 pm	Consumer Credit– Dec	$21.9 Bil	**$21.8 Bil**		$40.0 Bil
2-8 / 7:30 am	Int'l Trade Balance – Dec	-$83.0 Bil	**-$83.4 Bil**		-$80.2 Bil
2-10 / 7:30 am	Initial Claims – Feb 5	230K	**235K**		238K
7:30 am	CPI – Jan	+0.4%	**+0.5%**		+0.5%
7:30 am	"Core" CPI – Jan	+0.5%	**+0.5%**		+0.6%
2-11 / 9:00 am	U. Mich Consumer Sentiment- Feb	67.3	**69.0**		67.2

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.