

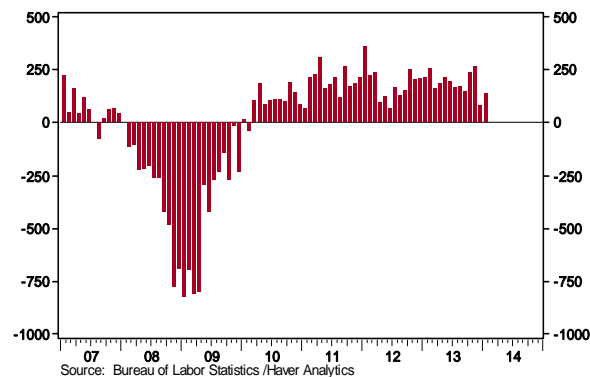
January Employment Report

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

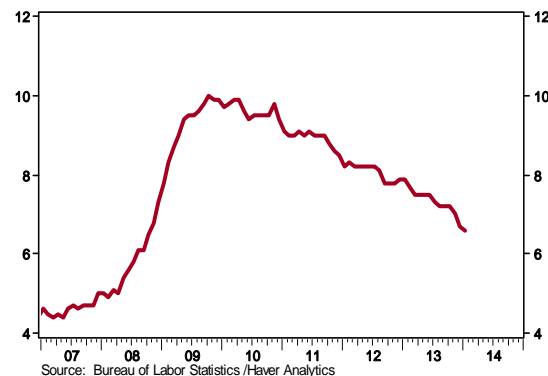
- Nonfarm payrolls increased 113,000 in January, below the consensus expected 180,000.
- Private sector payrolls increased 142,000 in January, lagging the consensus expected 185,000. The largest gains were for construction (+48,000), professional & business services (+36,000, including temps), and restaurants & bars (+15,000). The largest decline was for retail, (-13,000). Government payrolls declined 29,000.
- The unemployment rate dropped to 6.6% (6.584% unrounded) from 6.7% (6.681% unrounded).
- Average weekly earnings – cash earnings, excluding benefits – increased 0.2% in January and are up 1.9% from a year ago.

Implications: Something for everyone in today’s report. Nonfarm payrolls increased a tepid 113,000 in January, the second straight month with payroll gains noticeably under consensus expectations. Private-sector gains were a healthier 142,000, but that’s still below the average of 191,000 in the past year. Although the weather appeared to have held down payrolls in December, Labor Department data say the number of people who couldn’t work due to weather was *smaller* than usual in January. However, the household survey that generates that weather effect also shows an overall gain of 638,000 in civilian employment for the month. As a result, despite the labor force increasing by 523,000, the unemployment rate ticked down again to 6.6%, very close to the Federal Reserve’s 6.5% threshold for starting to discuss rate hikes. Obviously, the Fed isn’t going to raise rates anytime soon. More likely, it will drop that threshold to 6% (maybe lower) or use speeches to discount the importance of the jobless rate. Regardless, we expect tapering to remain on track and for the pace of tapering to accelerate later this year. Like the headline data, the details of the report were also mixed. Every January report includes an annual “benchmark” revision for payrolls and this one revised payrolls higher in March 2013 by 369,000. However, all of the revision was due to re-categorizing some household employees as payroll workers. For January 2014, total hours worked increased 0.1% and are up 2.1% from a year ago. Combining that increase with a 1.9% gain in average hourly earnings, shows that total cash earnings are up 4% from a year ago, which is more than enough to keep pushing consumer spending higher. Also, part-time employment dropped 80,000 in January and is down 117,000 from a year ago, silencing the pessimists who were contorting that data series in 2013 to spin a negative story. And while the headline unemployment rate ticked down slightly, the U-6 unemployment rate dropped to 12.7% from 13.1%. As we always remind our readers, the labor market could and would be doing better with a better set of public policies. But it is still improving. In the past year nonfarm payrolls have grown at an average monthly rate of 187,000 while civilian employment is up 153,000 per month. The soft growth in payrolls the past two months is not the start of a new weaker trend. We expect payroll gains to reaccelerate sometime in the next couple of months. The plowhorse economy is still moving forward.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Jan-14	Dec-13	Nov-13	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	6.6	6.7	7.0	6.8	7.0	7.2
Civilian Employment (monthly change in thousands)	638	143	958	580	157	153
Nonfarm Payrolls (monthly change in thousands)	113	75	274	154	178	187
Construction	48	-22	32	19	15	15
Manufacturing	21	8	35	21	16	8
Retail Trade	-13	63	22	24	28	26
Finance, Insurance and Real Estate	-2	3	-4	-1	0	5
Professional and Business Services	36	4	73	38	41	55
Education and Health Services	-6	-4	25	5	20	26
Leisure and Hospitality	24	20	37	27	32	36
Government	-29	-14	2	-14	-3	-4
Avg. Hourly Earnings: Total Private*	0.2%	0.0%	0.2%	2.0%	2.0%	1.9%
Avg. Weekly Hours: Total Private	34.4	34.4	34.5	34.4	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.1%	-0.2%	0.5%	1.6%	1.8%	2.1%

*3, 6 and 12 month figures are % change annualized