Weekly Market Flash

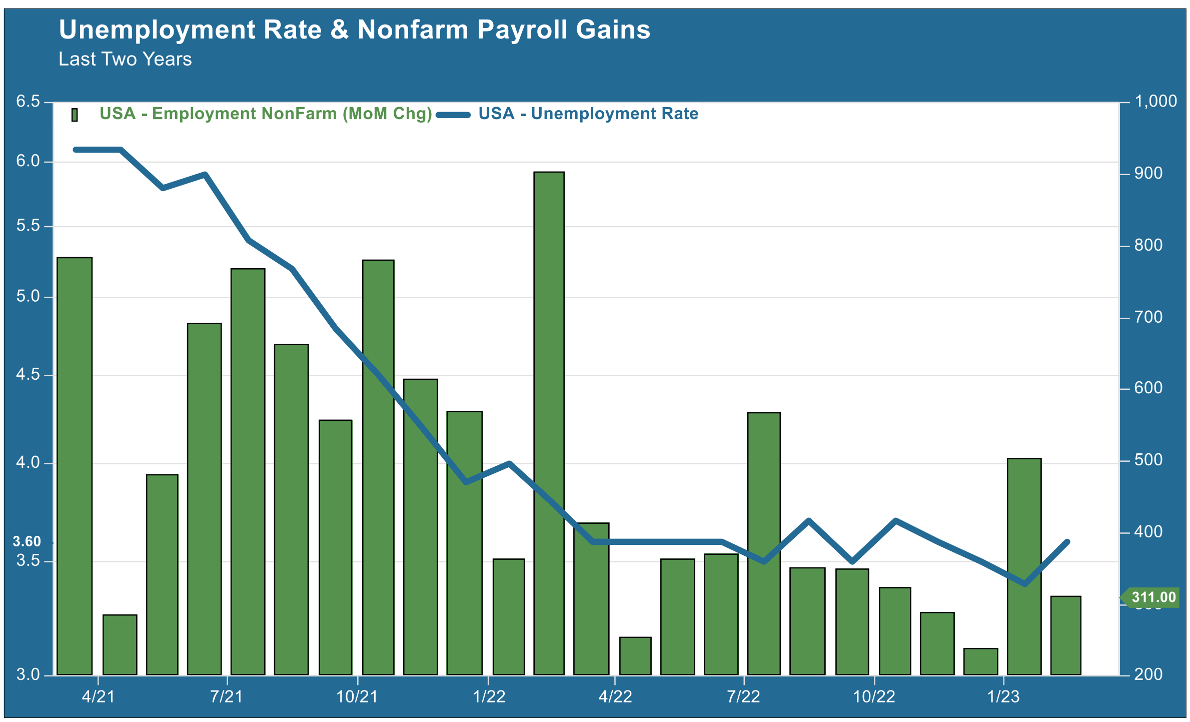
What Today's Jobs Numbers Tell Us

March 10, 2023

In his semiannual testimony to Congress on monetary policy this week, Fed Chair Jay Powell noted that there were two more key pieces of data the Fed would take into consideration before deciding what move to make on interest rates at the next Federal Open Market Committee meeting, which will conclude on March 22. Those data points were the February jobs numbers, which came out today, and the Consumer Price Index (also for February) which will post next Tuesday.

Hot…Or Not?

We have one of those data points in hand now. Nonfarm payrolls, the most-watched figure in the jobs report, grew by 311,000 last month. That was significantly more than the 215,000 increase economists expected. So…hot, right? And thus bad for the market, because the Fed will have to turn up the heat even more, right? Not necessarily. Let's consider that number in the context of its two-year trend.



Source: Bureau of Labor Statistics, MVF Research, FactSet

To be sure, 311,000 is still a hefty gain. Lots of jobs were created last month in leisure and hospitality, retail and health care. Notable job losses occurred in technology, which is unsurprising given all the stories we've been reading over the past few weeks about layoffs at major tech and communications companies. But you can also see from the chart that in the context of the two-year trend, 311,000 jobs is well below the average, which for the period shown in the chart is 491,000. Even in comparison with the past six months – i.e. excluding some of those earlier blockbuster months when payroll gains topped 700,000 – the February numbers are pretty modest.

So maybe not so hot?

Lagging, Not Leading

Moreover the other headline number from the BLS report – the unemployment rate – also ticked up. Granted, 3.6 percent is still a very low unemployment rate and it rose from the 54-year low of 3.4 percent last month, but it still represents at least some evidence that recent labor market strength may be cooling off. And here is a key point with regard to the jobs report: it is a lagging indicator. Employers don't typically lay people off by anticipating an economic slowdown way ahead of one actually happening. They see sales slowing down for a few months and then decide it's time to start cutting costs. You expect to see the jobs numbers start to turn much closer to an actual downturn, not many months ahead of it.

Two other figures in today's report seem to support the idea that conditions are starting to soften. Average wages grew by eight cents, or 0.2 percent from January to February, translating to a year-on-year increase of 4.6 percent. That was lower than the 0.4 percent month-on-month increase predicted by economists, and thus a sign that despite the continued plentitude of job vacancies, wage pressure is not building up much. That has important implications for the Fed. If wages are held in check it suggests that we are not on the cusp of the kind of wage-price spiral that got out of control in the 1970s, the last time we had inflation running at high levels.

And buried in the BLS report was another interesting figure: the number of persons jobless less than five weeks grew by 343,000 to 2.3 million. That's a big number and notable change from January, and it is also a contrast to the relatively unchanged state of affairs for those unemployed for longer periods of time. In other words, it would seem, the layoffs we've been reading about in recent weeks are starting to show up in the job loss tables. It will be interesting to follow this statistic in the coming months.

Back to You, FOMC

Of course, we do not know how today's numbers will factor into the FOMC's equation for its March 22 decision on rates (though we did see the market's consensus probability of a 0.5 percent rate hike fall from 60 percent before the BLS report to 43 percent afterwards – take that real-time hot take for whatever it's worth, or not). And we still have to see what happens on Inflation Tuesday next week. But we think the jobs numbers – we repeat, a lagging indicator – are starting to show evidence that the Fed's monetary tightening is having an effect. We'll soon see what Powell & Co. have to say about it.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research