

## Very Strong Jobs Report to End 2024 With Job Growth of 256,000, a Small Drop in the Unemployment Rate, and Softer Wage Growth

- **Job growth was well above expectations in December, with an increase of 256,000.**
- **The unemployment rate fell slightly to 4.1% in December, with increases in both employment in the household survey and the labor force.**
- **Wage growth slowed in December from recent months.**
- **The labor market was in very good shape at the end of 2024, and should remain solid this year. Immigration restrictions are a downside risk to near-term job growth.**
- **PNC expects two fed funds rate cuts in the first half of this year.**

The U.S. economy added 256,000 jobs in December according to a survey of employers from the Bureau of Labor Statistics, far above the consensus expectation of 150,000. This was the strongest month for job growth since March, although it was just above the 255,000 jobs added in September. Job growth in November was revised lower to 212,000 from 227,000, while October job growth was revised higher to 43,000 from 36,000, for a combined net downward revision of 8,000. Job growth in October was weak because of Hurricanes Helene and Milton, and then has rebounded over the past two months. Over the last three months the US economy has added an average of 170,000 jobs. This is down from over 200,000 per month in 2023, but is close to the economy's potential given underlying growth in the number of available workers. The private sector added 223,000 jobs in December, with government employment up by 33,000.

The unemployment rate fell to 4.1% in December from 4.2% in November. This release included revisions to the unemployment rate going back to January 2024, but they are minor and do not change the story: the unemployment rate is up from the beginning of last year (3.7% in January 2024), but has been between 4.0% and 4.3% since May. This is still historically low and right around the Federal Reserve's 4.2% estimate of the long-run unemployment rate that is consistent with their inflation target.

Employment as measured in a survey of households (different from the survey of employers) jumped by 478,000 in December, the largest increase since March 2024. The labor force—the number of people working or looking for work—rose by a good 243,000 in December. The labor force participation rate, which is the share of adults working or looking for work, was unchanged from October and November at 62.5% in December. The labor force participation rate has been between 62.5% and 62.8% since early 2023; the rate was above 63% before the pandemic, and the post-pandemic job market is structurally tighter than the pre-pandemic one.

Average hourly earnings rose 0.3% (0.28% before rounding) in December from November, slightly below the 0.4% average pace from August to November. On a year-over-year basis average hourly earnings were up 3.9% in December. After hitting almost 6% in mid-2022, yearly wage growth has slowed to around 4%. This is still somewhat higher than the pre-pandemic pace of somewhat above 3%, suggesting the potential for inflationary pressures coming from the job market.

The average workweek was unchanged at 34.3 hours. With more jobs, higher wages, and an unchanged workweek, aggregate earnings rose a good 0.4% in December. This is about even with PNC's expected inflation for the month (December CPI to be released January 15).

Goods-producing industries lost 8,000 jobs in December, with a drop in manufacturing of 13,000 more than offsetting an increase in construction of 8,000. Private service-providing industries added 231,000 jobs over the month, with gains in most industries. Healthcare led the way with job growth of 70,000. There were also gains of 43,000 in retail trade, suggesting strong holiday sales; the numbers are seasonally adjusted, accounting for the typical surge in industry hiring at the end of the year, but apparently the increase in December was especially strong compared to previous years. There was also an increase of 43,000 in leisure/hospitality services, also suggesting strong consumer activity. Employment rose by 28,000 in professional/business services and 13,000 in financial activities. The diffusion index, a measure of the breadth of private-sector job growth, fell to 56.4 from 59.0 in November; a reading of 50 means equal numbers of industries added and lost jobs over the month.

The December jobs report was much better than expected, with very strong job growth in both the employer and household surveys and a drop in the unemployment rate. Slightly softer wage growth was good news from an inflation perspective, even as labor market earnings continue to rise at least as quickly as prices. The job market should remain sturdy in 2025, with continued gains and an unemployment rate close to 4%. Job growth should be softer in 2025, however, as workers remain scarce. One downside risk for job growth is the potential for immigration restrictions from the incoming Trump administration, which would constrain the number of available workers; immigration has been a key source of labor force growth over the past few years.

With more jobs and higher wages consumer spending will continue to increase in the near term, supporting continued economic expansion. After cutting the federal funds rate by 100 basis points between September and December, the Federal Open Market Committee has indicated further rate cuts in 2025, but not at every meeting. This jobs report is consistent with that view: a strong labor market reduces the urgency for rate cuts, and continued wage growth of around 4% holds the potential for inflationary pressures emanating from the job market. PNC expects the FOMC to cut the fed funds rate by 25 basis points at its

meetings in March and June (with no cuts at its meetings in January and April), and then hold the rate steady in a range between 3.75% and 4.00% in the second half of this year and into 2026.

The fed funds futures market is pricing in a 3% probability of a rate cut at the FOMC's next meeting, on January 29, down from 6% yesterday and 19% a month ago.

The S&P 500 opened lower and is down 1.6% today on concerns about fewer fed funds rate cuts in 2025 given the strong labor market. The yield on the 10-year Treasury note is up 7 basis points to 4.76%, to its highest level since the fall of 2023. The yield on the 3-month Treasury bill is up by 2 basis points to 3.23%. The US dollar has strengthened against a basket of currencies on expectations for less Fed easing. The price of a barrel of West Texas Intermediate crude oil is up more than 2% on the day to \$75.70, near its highest point since October 2024.

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