Economic Update

February 7, 2025

Slower Job Growth in January, But Unemployment Rate Down Slightly as Labor Market Remains Solid at Start of 2025

- **Job growth slowed in January to a still-solid 143,000. Job growth over the past three months has averaged above 200,000.**
- **The unemployment rate fell slightly to 4.0%, and remains historically low.**
- **Wages grew at the fastest pace in a year.**
- **The average workweek fell to its lowest level since the pandemic.**
- **Job growth is slowing, but overall the US labor market is solid in early 2025.**
- **Market expectations for additional monetary easing fell somewhat after the jobs report.**

The US economy added 143,000 jobs in January, according to a survey from employers from the Bureau of Labor Statistics, below the recent pace but still solid. The consensus expectation was for job growth of 170,000. US job growth in December was 307,000, revised higher from 256,000, and in November was 261,000, revised up from 212,000. On a three-month moving average basis job growth was a very good 237,000 through January, above the economy's long-term trend given underlying growth in the labor force. The private sector added 111,000 jobs in January, with government employment up by 32,000. The three-month moving average of private-sector job growth through January was 209,000.

The unemployment rate fell slightly to 4.0% in January, from 4.1% in December and 4.2% in November. The unemployment rate has been around 4% for the past year. This is up somewhat from 2023, when it was below 4% for the entire year, but is still historically low.

This release also included the annual revisions to the employment data, based on more complete data from unemployment insurance records. After the revisions, job growth for all of 2024 averaged 166,000 per month, compared to 186,000 before the revisions. Either way, the job market remains solid entering 2025. With the revisions there was a softening in job growth in the middle of 2024, and then a pickup toward the end of the year. After revisions monthly job growth in 2023 averaged 216,000, so job growth softened somewhat last year.

There were also revisions to the data used to calculate the unemployment rate, based on a survey of households (different from the survey of employers). Taking these adjustments into account employment in the household survey rose by 234,000 in January from December. The labor force—the number of people working or looking for work—rose by 91,000 after adjustment, while the labor force participation rate (the

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share of adults in the labor force) was unchanged at 62.6%. The labor force participation rate has been between 62.5% and 62.8% for the past two years. This is lower than the 63%+ rate before the pandemic, and so the job market now is structurally tighter than it was then.

Average hourly earnings rose 0.5% from December to January, the strongest wage growth in a year. On a year-over-year basis the average wage was up 4.1%. After briefly slowing below 4% in mid-2024, wage growth has been 4% or higher for the past four months. Wages are growing more quickly than prices, which is good for consumer spending, but strong wage growth is also contributing to inflation that is above the Federal Reserve's 2% objective. Before the pandemic wage growth was running closer to 3.5%. However, wage growth has slowed from close to 6% in early 2022, when strong competition for workers was driving up pay.

The average workweek fell to 34.1 hours in January from 34.2 hours in December and 34.3 hours in November. This is the shortest average workweek since March 2020, at the beginning of the pandemic, and before that in mid-2010, when the economy was coming out of the Great Recession. Sometimes the average workweek starts to shorten ahead of a slowing in job growth—it is easier for employers to adjust hours than headcount—so the shorter workweek in January bears watching. But it was either 34.2 or 34.3 hours from April to December of 2024, so it is likely just a temporary softening.

With more jobs, a large increase in average hourly earnings, but a slightly shorter average workweek, aggregate earnings rose 0.3% in January, after a 0.2% increase in December. This is somewhat lower than PNC's estimate for inflation in January of 0.4% (CPI to be released February 12).

Employment was flat in private goods-producing industries in January from December, with jobs up slightly in both manufacturing and construction, but down in mining and logging. Private services-providing industries added 111,000 jobs in January, down from the recent pace. Health care added 66,000 jobs over the month, with a gain of 34,000 in retail trade. Employment fell by 11,000 in business/professional services (all in temporary help services) and by 3,000 in leisure/hospitality services. The diffusion index of job growth—a measure of the breadth of job growth, with 50 meaning equal numbers of industries adding and shedding jobs—was 55.0 in January, down from 57.2 in December.

Job growth continues to gradually ease, to a pace more consistent with labor force growth. Job gains softened somewhat in January, and after revisions job growth slowed in 2024 from 2023. But the labor market is still in excellent shape, with good job gains, wages rising faster than prices, and a continued historically low unemployment rate. With the labor market solid and wage growth running faster than it did before the pandemic, the Federal Open Market Committee is not under pressure to cut the federal funds rate to support employment. PNC expects the FOMC to cut the fed funds rate two times in mid-2025, 25 basis points each time, which would take the rate to a range of 3.75% to 4.00% by late summer. PNC then expects the fed funds rate to remain in that range through the rest of 2025 and into 2026.

Job growth will be slower this year than in 2024, as a lack of available labor will hamper hiring. Restrictions on immigration that would weigh on the labor force are a downside risk for job growth in 2025. The unemployment rate will remain around 4% throughout 2025, with wage growth easing somewhat.

Market reaction to the jobs report was muted. The S&P 500 opened slightly higher this morning, but ended the day down 1%. The yield on the 10-year Treasury note rose slightly right after the jobs release, and ended the day up 5 basis points at 4.50%. The yield on the 3-month Treasury bill was up 2 basis points to 4.34%. The dollar strengthened slightly against a basket of currencies. The price of a barrel of West Texas Intermediate crude oil rose 0.6% on the day to $71.

Expectations for monetary easing fell with the jobs report. The fed funds futures market is now pricing in a 92% probability of no rate cut at the FOMC's next meeting, on March 19, up from an 84% probability of no cut yesterday. The market is roughly 50-50 on whether the FOMC will cut the fed funds rate by the committee's mid-June meeting. The median expectation for the fed funds rate at the end of 2025 is 4.00% to 4.25%, meaning the most likely outcome is one 25 basis point cut by the end of the year. This is down from a market expectation yesterday of two rate cuts (25 basis points each) by the end of 2025.

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