

- **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.

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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.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 1/29/25)	4.38-4.38%	4.38%	4.38%	4.38%. The FOMC leaves the fed funds rate unchanged in January.
Dec PPI (1/14, Tuesday)	0.3-0.4%	0.4%	0.4% (Nov)	PPI to climb 0.4% in December, on par with the increase in November.
Dec PPI (ex-food & energy) (1/14, Tuesday)	0.2-0.3%	0.3%	0.2% (Nov)	Core PPI to increase 0.2% in December after rising 0.2% in November.
Dec CPI (1/15, Wednesday)	0.2-0.4%	0.3%	0.3% (Nov)	CPI to climb 0.4% in December despite lower gas prices.
Dec CPI (ex-food & energy) (1/15, Wednesday)	0.2-0.3%	0.3%	0.3% (Nov)	Core CPI to increase 0.3% in December, on par with the rise in November.
Dec Retail Sales (1/16, Thursday)	0.4-0.7%	0.6%	0.7% (Nov)	Retail sales to climb 0.6% in December amid strong holiday spending.
Dec Retail Sales (ex-auto) (1/16, Thursday)	0.2-0.8%	0.5%	0.2% (Nov)	Core retail sales to increase 0.5%, more than double the 0.2% upturn in November.
Dec Export Price Index (1/16, Thursday)	-0.4 to 0.3%	0.1%	0.0% (Nov)	Export prices to rise 0.3% in December after a flat print in November.
Dec Import Price Index (1/16, Thursday)	-0.4 to 0.2%	-0.3%	0.1% (Nov)	Import prices to climb 0.2% in December on the heels of a 0.1% increase in November.
Initial Claims, Week of 1/11/25 (1/16, Thursday)	207-250K	214K	201K (1/4/25)	Initial jobless claims to increase to 213K but remain historically low.
Nov Business Inventories (1/16, Thursday)	0.1-0.2%	0.1%	0.1% (Oct)	Business inventories to rise a modest 0.1% in November following a 0.1% increase in October.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Dec Housing Starts (1/17, Friday)	1.290-1.473M	1.320M	1.289M (Nov)	Housing starts to increase to 1.345M in November as homebuilders attempt to offset the shortage of existing homes for sale.
Dec Industrial Production (1/17, Friday)	0.1-0.6%	0.3%	-0.1% (Nov)	IP to rebound 0.3% in December following a 0.1% dip in November.
Dec Capacity Utilization (1/17, Friday)	76.9-77.2%	77.0%	76.8% (Nov)	Capacity utilization to climb to 77.0% in November on rebounding IP growth.

Monthly Calendar of Economic Data: January 2025

Jan 14

Producer Price Index

	Total	Core
Oct	0.3	0.3
Nov	0.4	0.2
Dec		

Jan 15

Consumer Price Index

	Total	Core
Oct	0.2	0.3
Nov	0.3	0.3
Dec		

Jan 16

Retail Sales

	Total	Ex-Autos
Oct	0.5	0.2
Nov	0.7	0.2
Dec		

Unemployment Claims (000)

Sept	Oct	Nov	Dec	Jan
231	260	221	242	201
222	242	219	220	
219	228	215	220	
225	218	215	211	
		225		

Dec Import Price Index

Mfg and Trade

	Inv	Sales
Sept	0.0	0.3
Oct	0.1	0.0
Nov		

Jan 17

Housing (000)

	Starts	Permits
Oct	1.312	1.419
Nov	1.289	1.505
Dec		

Industrial Prod Cap Util

	Industrial Prod	Cap Util
Oct	-0.4	77.0
Nov	-0.1	76.8
Dec		

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