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Flash Macro Update

U.S. Jobs Report | February 2024

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What You Need to Know

1 How are we thinking about the January U.S. jobs report?

January's jobs report was a hot one. Headline job growth came in at +353k, well above the consensus of +185k and the strongest reading in twelve months. This report showed that demand for workers remains robust. Beneath the surface, we think that this report is consistent with the picture Chairman Powell painted at the January FOMC of strong GDP and cooling inflation.

- **The totality of this week's data aligns with our message of resilient growth and continued disinflation.** The market has now gone from pricing in fully 6.5 Fed cuts for 2024 a few weeks ago to 4.75 today, which is still more dovish than our forecast of four cuts.
- **That said, we do not think job growth will sustain at current levels**. There are a few offsets to consider, including the household survey (-31k and negative for two months in a row) and the fact that January seasonal factors have become noisier since COVID. We also know that companies are laying off more employees this earnings season, so we do not want to over-react to this report too much.
- **Wages rose a solid 4.5%, although we continue to see core inflation settling in the mid-two percent range this year**. Other important datapoints have looked more disinflationary for labor recently, including the Employment Cost Index (10 basis points below consensus last Wednesday) and the JOLTS quits rate (which provided an early warning signal of labor scarcity when it spiked back in 2021, but is back below 2019 levels today).

WHAT DOES THE U.S. JOBS REPORT MEAN FOR OUR OUTLOOK, AND FOR MARKETS?

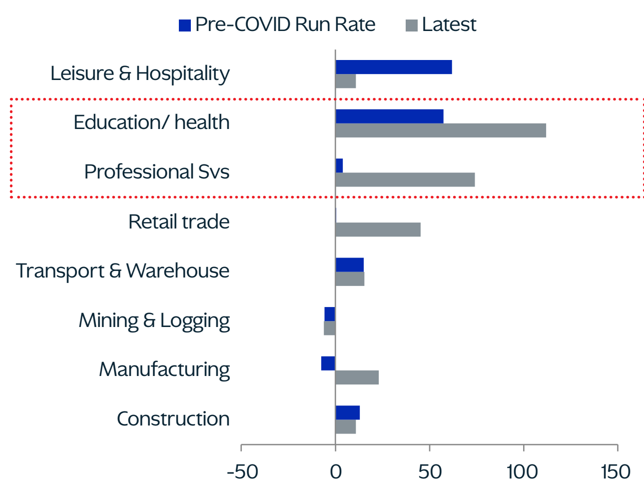
We believe the dollar should snap back, while hopes for a huge Fed easing campaign will likely be abandoned, and risk assets will struggle a bit until we see inflation cooling later in the year. However, we stick to our four percent call for the 10-year U.S. Treasury. Overall, our base case remains largely the same, despite this strong report. This cycle will be different, as jobs, fiscal impulse, a messy energy transition, and geopolitics will lead to higher nominal GDP. If there is any weakness from today's report, we should continue to lean in. This cycle has durability, and we continue to think that many of our investors are under-invested in a world where the global economy, albeit in a much more asynchronous pattern than in the past, chugs along. Without question, today's report definitely challenges those investors in the hard landing camp, and it even pushes us to be more constructive on growth. As a reminder, we are currently at two percent GDP growth for 2024, compared to a consensus of 1.3%.

KEY TRENDS IN THE DATA

- **Private job gains jumped +317k, well above consensus of +170k and the third strongest reading since early 2022.** Below the surface, we see more signs that employment/activity is stabilizing in cyclical industries like Manufacturing (+23k), Retail (+45k), and Logistics (+16k), all three of which saw employment accelerate in January. Remember we just got the highest ISM number in about 15 months and are almost back to neutral after 15 straight months of contraction. At the same time, Government (+36k) and Education/Healthcare (+112k) continue to provide a steady backbeat for job gains.
- **Average hourly wage growth came in at +0.6% m/m in January (above the prior-month reading of +0.4% and the consensus of +0.3%).** However, we do not think that this month's reading will threaten the Fed's progress on inflation, as average hourly earnings have been a noisy measure this cycle (with high sensitivity to mix effects) while other metrics like the ECI (which printed at +0.9% for 4Q23, below consensus of one percent) point to elevated but non-inflationary wage growth. Maybe more important, we continue to think that nominal wages are due to play 'catch-up' to inflation in coming years, which will mostly impact margins versus pricing in labor-sensitive industries.
- **The household survey remains quite weak.** Household employment – which surveys workers, rather than firms, on their employment status – has declined by a net -300k jobs over the last seven months and posted a -31k job loss in January. Meanwhile, though unemployment held steady at 3.7%, it was only because participation remains "stuck" in the 62.5% range.

Exhibit 1: Education. Healthcare and Professional Services Boosted Job Growth in January

Payroll Growth: Major Services and Goods Sectors (Change '000)



Data as at January 31, 2023. Source: KKR Global Macro & Asset Allocation analysis.

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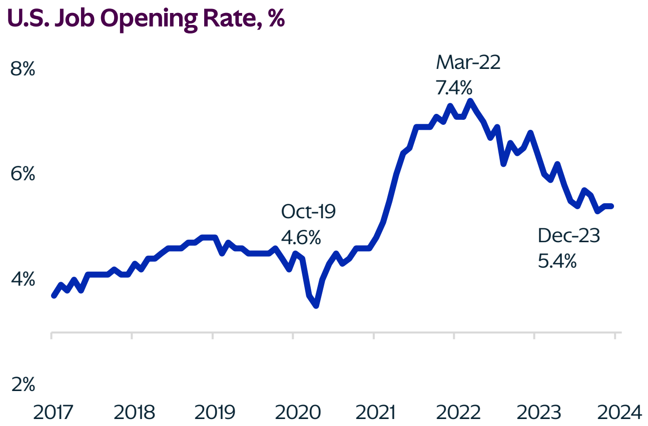
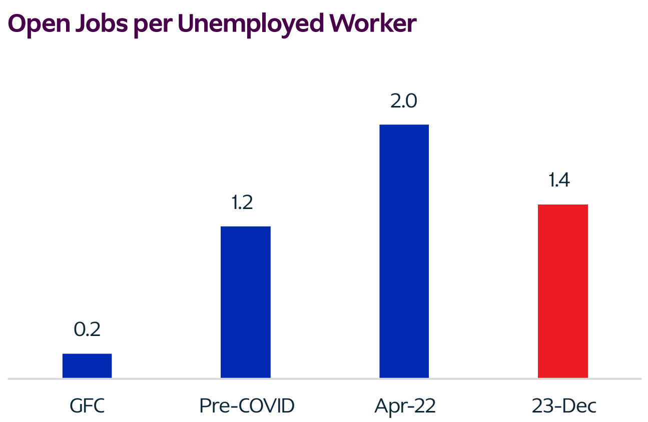
Exhibit 2: Job Openings Are Falling...



Data as at December 31, 2023. Source: Bureau of Labor Statistics.

Exhibit 3: ...And the Overall Labor Market Backdrop Is Less Inflationary Than It Was in 2022



Data as at December 31, 2023. Source: Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

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