Expectations-busting jobs growth: does the BLS Employment Situation tell the whole story?

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The January Employment Situation Report showed a 467,000 job increase in nonfarm payroll employment in January 2022. This expectations-busting release also reported slight increases in both the unemployment rate and number of unemployed workers in the U.S. Yet most of the attention generated by the release focused neither on the strong January gains nor on the growing unemployment. Instead, employment growth revisions over 2021 took center stage.

Key findings

- An expectations-busting 467,000 job increase in nonfarm payroll employment.
- Slight increases in both the unemployment rate and number of unemployed workers.
- Substantial revisions to estimates from the latter half of 2021.
- U.S. Census Bureau data suggests that the number of people unable to work because of the pandemic nearly doubled in January — up from 3.1 million in December 2021 to 6 million

The revised numbers boosted estimated employment gains in the final months of 2021. Changes to the models used to seasonally-adjust employment data drove most of the revisions, especially as more data from the pandemic became available. An originally reported gain of 249,000 jobs in November 2021 more than doubled after revision, being updated up to a gain of 647,000 instead. The previously reported modest December gain of 199,000 jobs soared up to 510,000 upon revision. Significant revisions also altered estimated job growth in June and July 2021. In this case however, revisions cut the initial estimates sharply downward. Job gains in June were reduced from a gain of 926,000 to gain of 557,000. The impressive July 2021 gains of nearly one million new jobs was cut to 689,000. *Overall, the monthly revisions for 2021 resulted more in a rearrangement of the timing of job growth rather than a robust increase in the total number of new jobs*. Net job gains for the entire year of 2021 were revised upwards by only 217,000.

Stronger-than-expected job creation in January, the large upward revisions to the November and December 2021 jobs data, and the latest Consumer Price Index statistics release showing a 7.5% year-over-year increase in January 2022, make a rate hike from the Federal Reserve in March all the more likely. In January 2020, worries of inflation were easily dismissed. The Federal Reserve was in the midst of lowering rates, reversing a gradual series of increases undertaken over 2016-2019. Today, just two years later, monetary policy tightening looms. Inflation is the most obvious difference between the two periods, though many economists (including us) do not see rising employment levels themselves as a primary driver of inflationary pressures. Yet compared to January 2020, the picture of today's labor market painted by BLS statistics is not as rosy.

Table 1: Comparing January 2020 with January 2022

	January 2020	January 2022
Unemployment Rate	3.5%	4.0%
Unemployment Level	5.8 million	6.5 million
U-6 Expanded Unemployment Rate	6.9%	7.1%
Unemployment Rate, White	3.1%	3.4%
Unemployment Rate, Black or African American	6.3%	6.9%
Unemployment Level, Job Losers Not on Layoff	2.0 million	2.3 million
Unemployment Level, Reentrants	1.9 million	2.0 million
Labor Force Participation Rate	63.4	62.2
Not in the Labor Force, Want a Job Now	4.9 million	5.7 million
Employed Part-Time for Non-Economic Reasons	21.6 million	19.8 million
Employed Part-Time for Economic Reasons	4.3 million	3.7 million
Employed, Usually Work Full-Time	130.8 million	131.2 million
Employment-to-Population Ratio	61.1	59.7
Employment-to-Population Rate, Black or African American	58.9	57.7
Employment-to-Population Rate, Women	55.8	54.6
Job Openings Rate	4.5%	6.8%

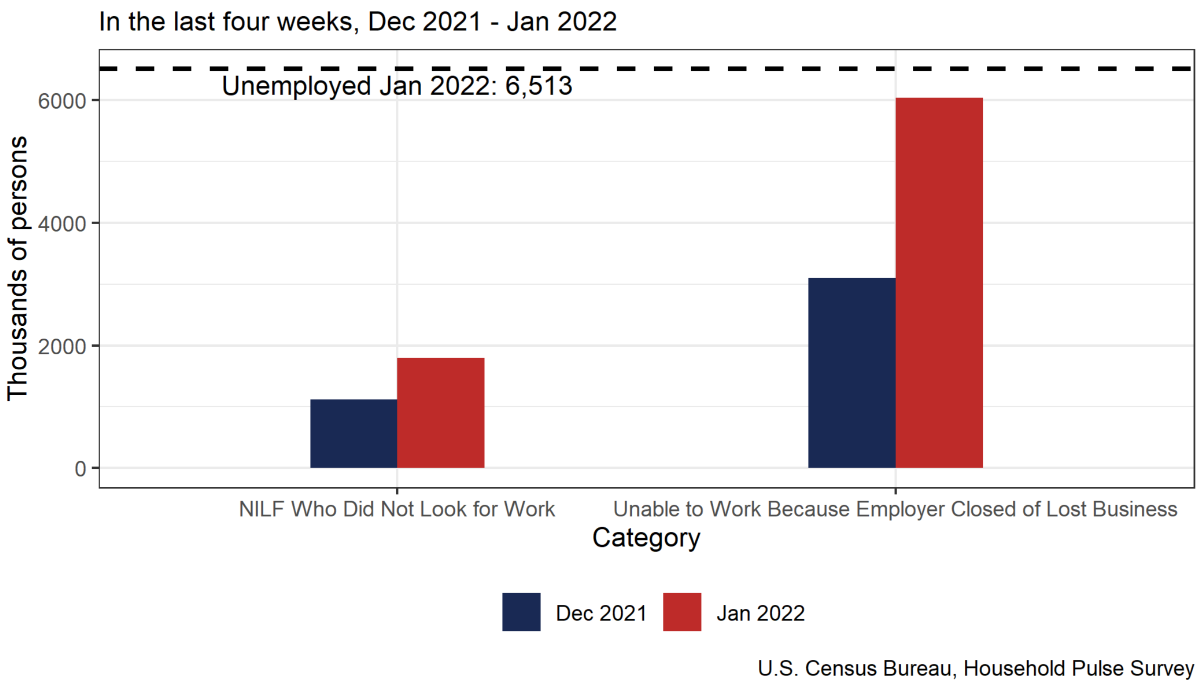
Practically all of the January 2022 unemployment statistics are still higher than those for January 2020. The Black unemployment rate remains double that of whites. Participation rates are lower across the board. So too for most employment-to-population ratios. Yet a few differences stand out. The number of workers in full-time employment, those working more than thirty-four hours per week, was higher in January 2022 than in January 2020. And the job openings rate is up as well. Though it seems an eternity ago, January 2020 should not necessarily be taken as a 'back-to-normal' benchmark. *While these comparisons are helpful for thinking about the steady recovery in labor markets since the onset of the pandemic, there is little reason to suppose that full employment had been secured in January 2020.*

Omicron and unemployment

The 467,000 job growth in January took many by surprise. As the Omicron variant swept through the U.S., many expected to see its toll on the January job numbers. At first glance, these concerns appear unwarranted. January's job growth was even led by the Leisure and Hospitality sector (up by 151,000 jobs), one of the sectors most expected to be hammered by the latest wave of COVID-19.

But the direct impact of the pandemic did show up in the latest data from the latest U.S. Census Bureau's Household Pulse Survey, which is included in the BLS Employment Situation Report. Household Pulse Survey data indicates that the number of people unable to work because of the pandemic nearly doubled in January — up from 3.1 million in December 2021 to 6 million. As the chart below shows, the number of people who did not search for work due to the pandemic, and thus were classified as not in the labor force at all, increased as well.

Figure 1: Household Pulse Survey on persons unable to work or not in the labor force due to the Coronovirus Pandemic



This effect of Omicron on job search likely dampened what otherwise would have been a larger increase in the unemployment rate and/or job gains.

As the chorus of voices declaring that full employment has been reached grows, and as the latest inflation data comes in, the pressure on the Fed to tighten will likely increase on nearly all fronts. Yet our review of the January data suggests that there are still millions wanting to work who are unable to secure jobs — for a host of reasons. If the traditional policy mix cannot provide employment for these workers without generating inflationary pressures, other options should be considered. Reliance on indirect job creation policy, such as infrastructure projects and general pump-priming (whatever their other merits, not an either/or), should not and cannot be relied upon to reach full employment or close existing racial and gender gaps in employment. Targeted policy specifically designed to tackle these inequalities are needed.