US Daily: January Payrolls Preview (Walker/Rindels)

- We estimate nonfarm payrolls rose by 190k in January, above consensus of +170k and the three-month average of +170k. Alternative measures of employment growth indicated a healthy pace of job creation, and the pace of layoffs—a key determinant of net job growth in January—remained subdued. We assume that the Los Angeles wildfires and colder-than-usual weather will each subtract 20k from January job growth.
- We estimate that the unemployment rate was unchanged at 4.1%, in line with consensus, and that the labor force participation rate increased by 0.1pp to 62.5%. We estimate that average hourly earnings rose 0.3% month-over-month—reflecting negative calendar effects but a modest boost from the tail end of start-of-the-year wage increases—which would lower the year-over-year rate to 3.7%.
- Tomorrow's report will be accompanied by the annual benchmark revision to the establishment survey and updated population controls in the household survey. The preliminary estimate of the benchmark payrolls revision indicated an 818k downward revision to cumulative payroll growth over April 2023 to March 2024. We see the revision as partly misleading, as it will likely inaccurately exclude 300-500k immigrants who were not in state unemployment insurance records. We expect the updated population controls, which will accurately reflect the immigration surge for the first time, to lead to the largest upward revisions on record to the level of the population (+3.5mn) and household employment (+2.3mn) and to put modest upward pressure on the labor force participation (+0.11pp) and unemployment (+0.04pp) rates via a composition effect.

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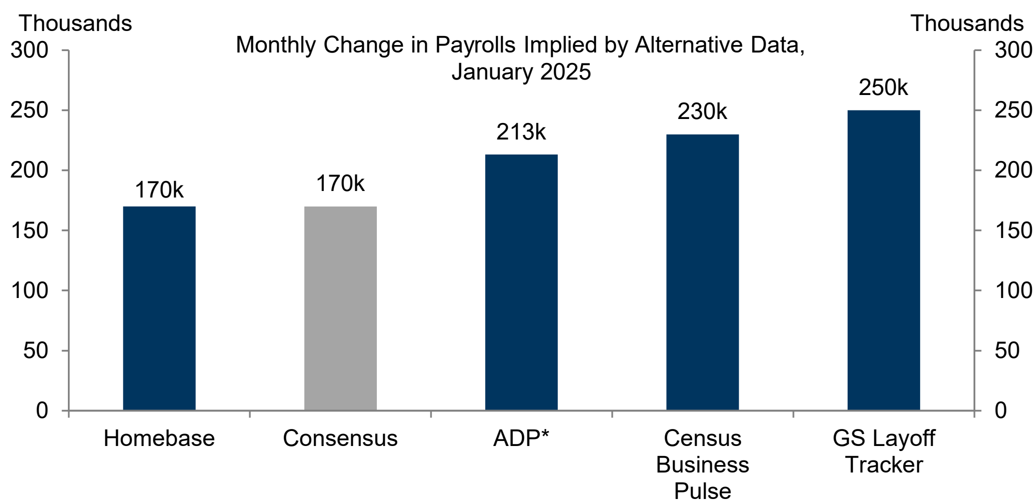
January Payrolls Preview

We estimate nonfarm payrolls rose by 190k in January, above consensus of +170k and the three-month average of +170k. We estimate private payrolls increased 160k (vs. consensus +140k). We describe the factors we considered in our forecast in greater detail below.

Arguing for a stronger-than-expected report:

- **Big data.** Alternative measures of employment growth were strong in January, indicating an average pace of +216k across the indicators we track. However, we would note that ADP's measure of employment growth and our layoff tracker have historically been less sensitive to adverse weather and natural disasters (discussed below). This suggests that the alternative measures might modestly overstate employment growth this month.

Exhibit 1: Alternative Data Indicated a Healthy Pace of Job Creation in January

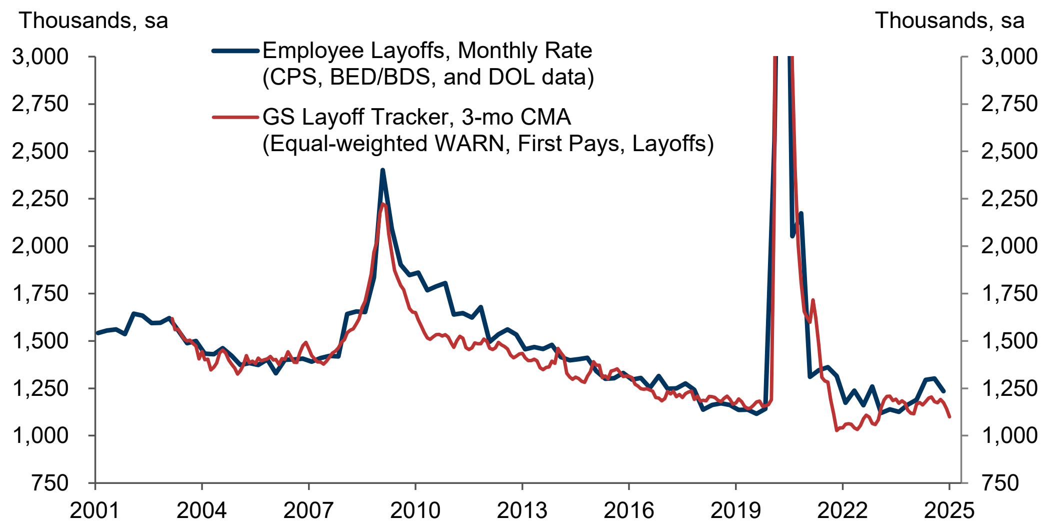


* Because ADP only reports private sector job gains, we've added our 30k assumption for government jobs.

Source: Goldman Sachs Global Investment Research, Homebase, ADP, Department of Commerce

- **Layoffs.** We expect subdued end-of-year layoffs to boost job growth this month. End-of-year layoffs typically weigh on not-seasonally-adjusted January employment growth, and as a result, the January seasonal factors expect a large decline in employment at the start of the year. Over the past couple of years, however, layoffs have been particularly low and contributed to strong seasonally-adjusted employment growth in January. Our layoff tracker (Exhibit 2) indicates that layoffs remain at historically low levels, suggesting this channel could boost employment growth again this month. That said, we expect a more modest boost than in previous years because the seasonal factors—which will be fully revised in Friday's report—should further learn to expect somewhat fewer layoffs in January.

Exhibit 2: The Pace of Layoffs—a Key Determinant of Net Job Growth in January—Remained Low

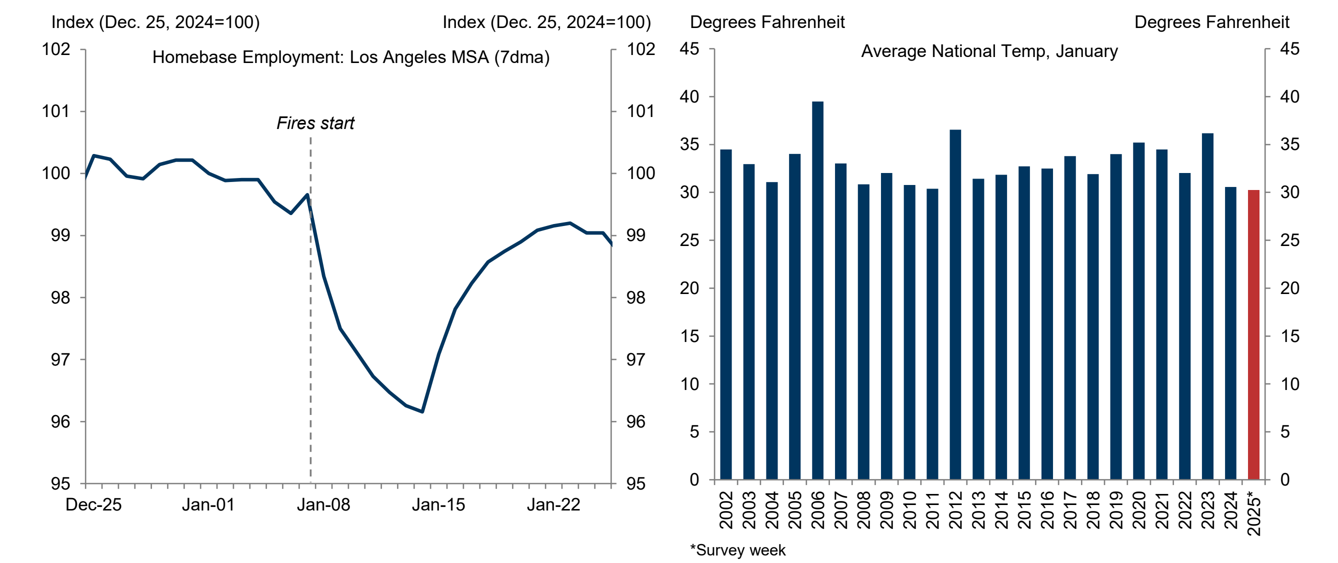


Source: Goldman Sachs Global Investment Research, Department of Labor, Census Bureau

Arguing for a weaker-than-expected report:

- **Wildfires and cold weather.** We estimate that the Los Angeles wildfires and colder-than-usual weather will each subtract 20k from January job growth. Roughly 0.5% of California's population went under evacuation order for the wildfires—representing about 90k payroll jobs—but given that the fires started on January 7 and roughly three-quarters of employees are paid biweekly, semimonthly, or monthly, many would have had the opportunity to work at some point during the reference week and be counted as employed. January 2025 was the coldest January in recent history, which we expect will disproportionately weigh on construction, leisure and hospitality, and other services employment this month.

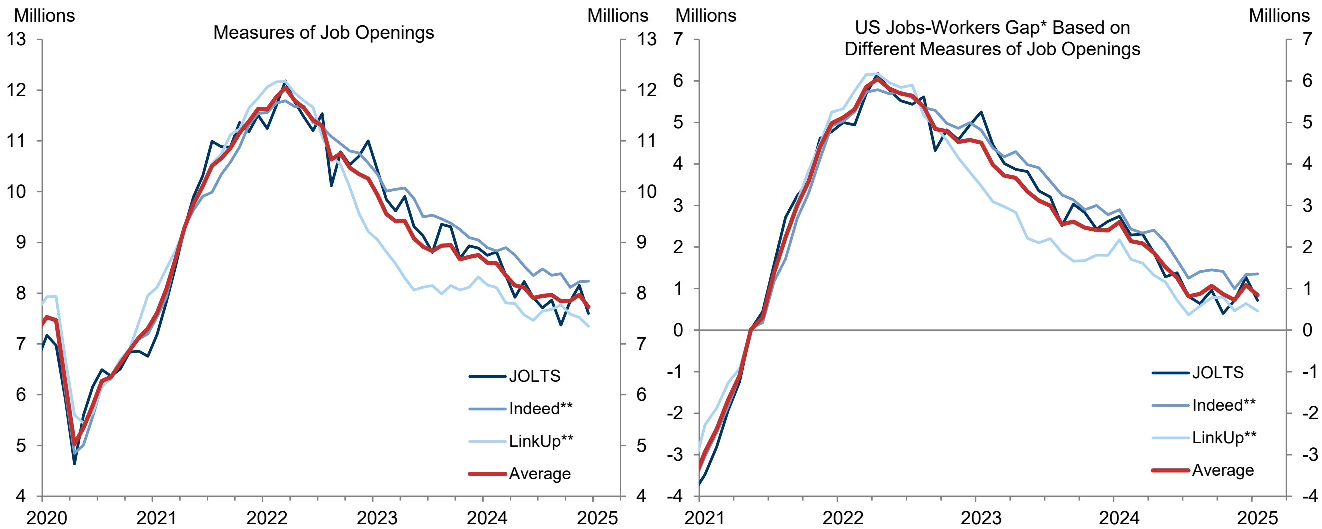
Exhibit 3: We Assume that the Los Angeles Wildfires and Cold Weather Across the Country Will Each Subtract 20k from January Job Growth



Source: Goldman Sachs Global Investment Research, Homebase, Department of Commerce

- **Job availability.** JOLTS job openings declined by 0.6mn to 7.6mn in December, partly retracing the increase of the prior two months. The Conference Board labor differential—the difference between the percentage of respondents saying jobs are plentiful and those saying jobs are hard to get—decreased by 6.0pt to +16.2 in January, remaining meaningfully below the 2019 average of +33.2.

Exhibit 4: Various Measures of Job Openings Have Moved Sideways Over the Last Six Months



* Difference between the number of job openings in the prior month and unemployed workers in the current month.

** Scaled to JOLTS job openings.

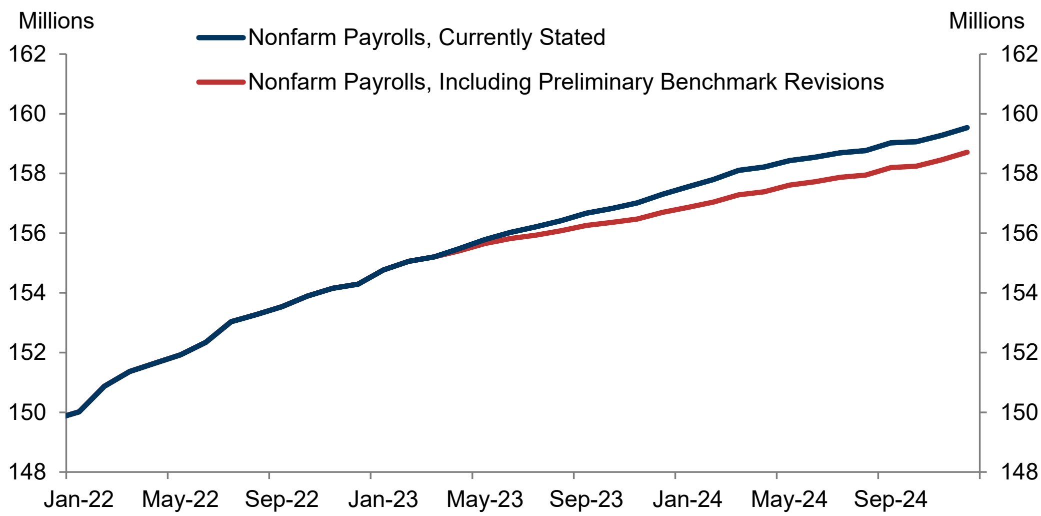
Source: Goldman Sachs Global Investment Research, US Bureau of Labor Statistics, Indeed, LinkUp

Neutral/Mixed Factors:

- **Employer surveys.** Our manufacturing survey employment component tracker increased by 1.4pt to 50.2 while our services survey employment component tracker ticked down by 0.3pt to 49.7. However, the signal from survey data has been less useful—and at times misleading—during the post-pandemic period and thus has little bearing on our payrolls forecast.

Tomorrow's report will be accompanied by the annual benchmark revision to the establishment survey. The BLS's preliminary estimate of the establishment survey revision indicated that cumulative payroll growth between April 2023 and March 2024 would be revised 818k lower. We see the revision as partly misleading, as it will likely exclude 300-500k immigrants who were not authorized to work but were correctly picked up in payrolls initially. We believe the remainder of the establishment survey revision will reflect appropriate adjustments to the BLS's birth-death model, which we estimate had overstated payroll growth by around 25k/month in 2023.

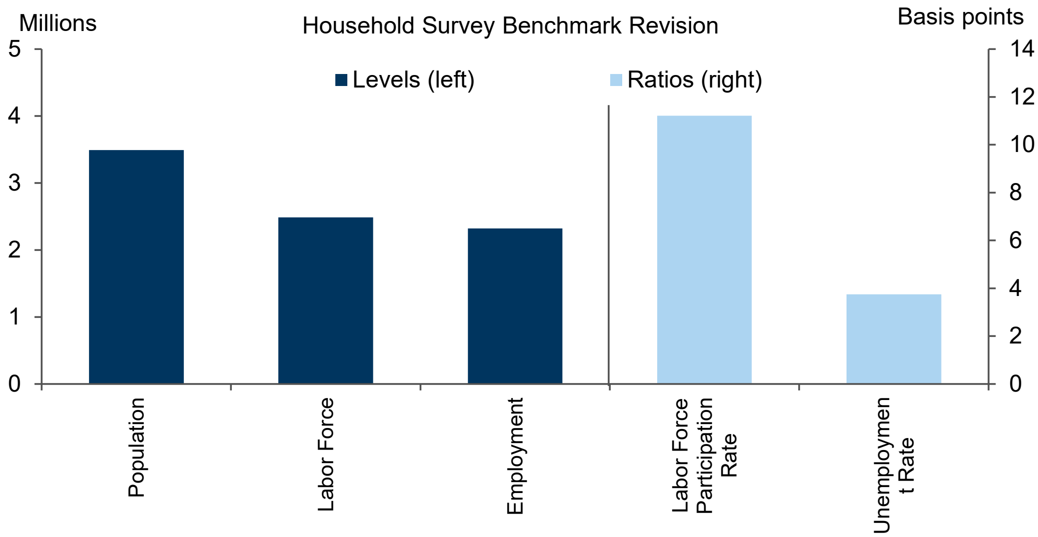
Exhibit 5: The Level of Nonfarm Payroll Growth Will Be Revised Substantially Lower as it is Benchmarked to the QCEW Through March 2024; We Think Roughly 300-500k of the Downward Revision Likely Reflects the Inappropriate Exclusion of Unauthorized Immigrants from the QCEW



We estimate that average hourly earnings rose 0.3% month-over-month, reflecting negative calendar effects but a modest boost from the tail end of start-of-the-year wage increases, which would lower the year-over-year rate to 3.7%.

We estimate that the unemployment rate was unchanged at 4.1%, in line with consensus. Tomorrow's report will be accompanied by updated population controls which will accurately reflect the recent immigration surge for the first time. We argued in prior reports that Census had severely understated population growth over the past few years because its immigration estimates were based on lagged migration information that failed to capture recent elevated immigration. In December, Census revised its estimation method and, as a result, revised up its net immigration estimates for July 2021 – July 2024 by a total of 3.5mn to levels that align closely with our own estimates of net immigration for that period. We expect the updated population controls to lead to the largest upward revisions on record to the level of the population (+3.5mn), the labor force (+2.5mn), and household employment (+2.3mn). On net, we expect these revisions to put modest upward pressure on the participation (+0.11pp) and unemployment (+0.04pp) rates via a composition effect.

Exhibit 6: We Expect Updated Population Controls to Lead to Substantial Upward Revisions to the Level of the Population, the Labor Force, and Employment, and Modest Upward Pressure on the Participation and Unemployment Rates



Source: Goldman Sachs Global Investment Research

Ronnie Walker

Jessica Rindels

Disclosure Appendix

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We, Jan Hatzius, Alec Phillips, David Mericle, Ronnie Walker, Manuel Abecasis, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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