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Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Fuel for the fire

The hot labor-market report for January has thrown cold water on any optimism that the Federal Reserve is ready to wrap up its tightening campaign. Arriving only two days after the markets seemed to dismiss Fed Chair Jerome Powell's "base case" of no rate cuts this year at the FOMC meeting, the Labor Department announced the economy added a whopping 517,000 jobs last month. It comes on the tail of five consecutive declining headline jobs numbers, and is the biggest gain since July 2022.

Further, at 3.4%, the unemployment rate declined to its lowest number in more than five decades. It is the epitome of the strangeness of the post-pandemic economy that despite aggressive Fed hikes and consumer inflation at multi-decade highs, workers are in as high of demand as ever.

The report did offer a silver lining. Average hourly earnings rose only 4.4% year-over-year, lower than 4.8% in December. Fed policymakers want to see wage growth decelerate along with the broader measures of price and cost pressures before declaring victory over inflation. But after bumping the federal funds target rate by a smaller amount of 0.25% last week, they will probably want to see wages stabilize before even thinking about easing.

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