NEWS RELEASE

FEDERAL RESERVE BANK *of* KANSAS CITY

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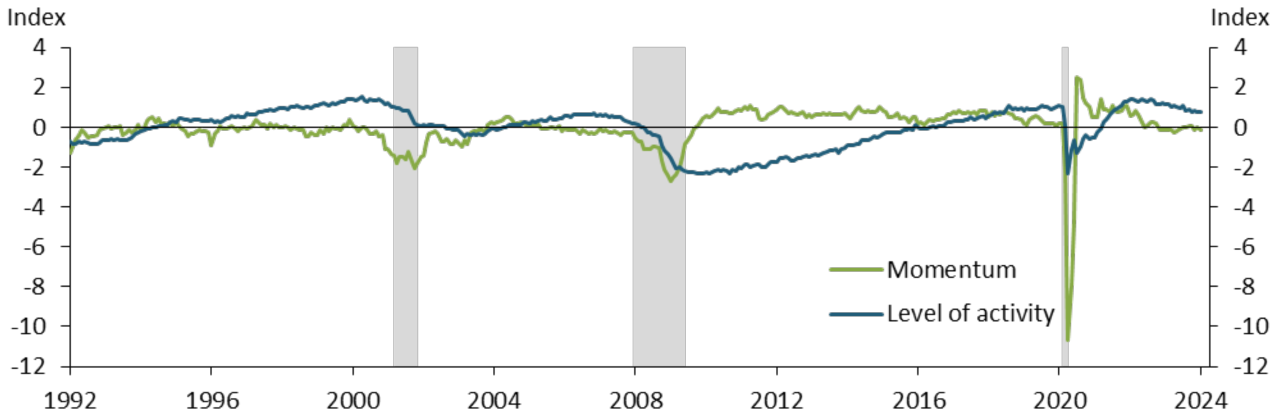
Contact: Bill Medley
816-881-2556
Bill.Medley@kc.frb.org

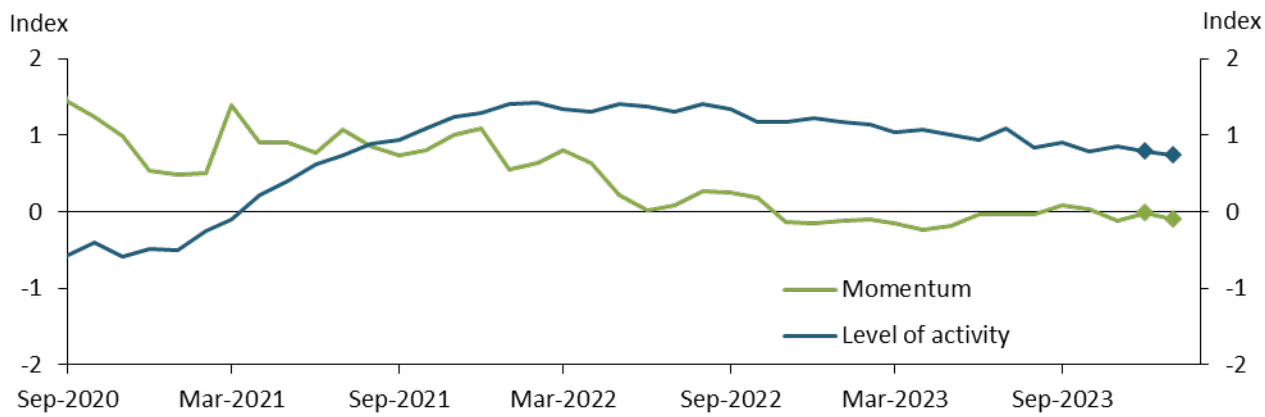
The KC Fed LMCI suggests the level of activity declined slightly, and momentum was little changed in January.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity declined slightly, and momentum was little changed in January. The level of activity decreased by 0.05, from 0.79 to 0.74, but remained above its historical average. The momentum indicator was little changed at −0.1. Momentum has been very close to its historical average for the last year.

LMCI January 1992–January 2024



LMCI September 2020–January 2024



Note: Bottom chart begins in September 2020 to remove pandemic-related volatility and more clearly illustrate recent developments in the series.

These readings likely do not fully describe the state of the labor market at the end of January, as many of the input data series reflect conditions early in the month. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of January 7 through January 13. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for December. Therefore, labor market developments in the latter half of January will likely show up in the February 2024 LMCI readings.

As previously noted, the level of activity indicator decreased by 0.05 from December to January. The first column of the table below shows the five labor market variables that made the largest contributions to the decrease in the activity indicator this month. Overall, 10 variables made a negative contribution to the change in the activity indicator, five variables made no contribution, and nine variables made a negative contribution. The largest contributor to the decrease in the level of activity was the percent of firms planning to increase employment. In January, 14 percent of firms surveyed by the NFIB were planning to increase employment, down from 16 percent in December.

Largest Contributions to the LMCI

Contributions to the decrease in the *level of activity* indicator in January 2024	**Negative contributions to the *momentum* indicator in January 2024**
Percent of firms planning to increase employment (NFIB)	Average hourly earnings
Job leavers	Manufacturing employment index (ISM)
Job flows from U to E	Temporary help employment
Working part-time for economic reasons	Aggregate weekly hours
Unemployed 27 or more weeks	Unemployed 27 or more weeks

Note: Contributions are ordered from largest in absolute value to smallest.

The second column of the table shows the five variables that made the largest negative contributions to the momentum indicator in January 2024. The momentum indicator was −0.1 in January. Overall, 11 variables made a negative contribution to momentum in January, and 13 variables made a positive contribution. The largest negative contributor to momentum was the three-month percent change in average hourly earnings, which increased by 0.06 percentage points from December to January. Historically, higher wage growth is negatively correlated with the LMCI's momentum indicator because higher wage growth is often associated with slower employment growth in subsequent months, thus signalling less momentum in the labor market. However, bad weather in January may have reduced hours worked and artificially boosted measured average hourly earnings. Thus, momentum may in fact be higher than the current value of the indicator suggests.