

# 2022 Starts with Strong Job Growth

*Updated 04 February 2022*

## Commentary on today's U.S. Bureau of Labor Statistics Employment Situation Report

Today's jobs report showed a better-than-expected increase in the number of jobs in January. Disruptions related to the Omicron variant do not seem to have derailed continued progress in the labor market. However, headwinds for employers persist, as labor shortages are still severe and economic activity remains healthy.

Nonfarm payroll employment increased by 467,000 in January, after an upwardly revised increase of 510,000 in December. The unemployment rate ticked up slightly to 4.0 percent, as the number of job-leavers and those on temporary layoffs increased; the labor force participation rate remained essentially the same at 62.2 percent in January after taking the new population controls into account. Overall, jobs still number 2.9 million below prepandemic (February 2020) levels, with women representing 63 percent of these employment losses. Note that this month's release incorporates larger revisions to the Establishment Survey (used for nonfarm payroll employment) and Household Survey (used for the unemployment rate). Revisions to payroll employment were especially large over the past year.

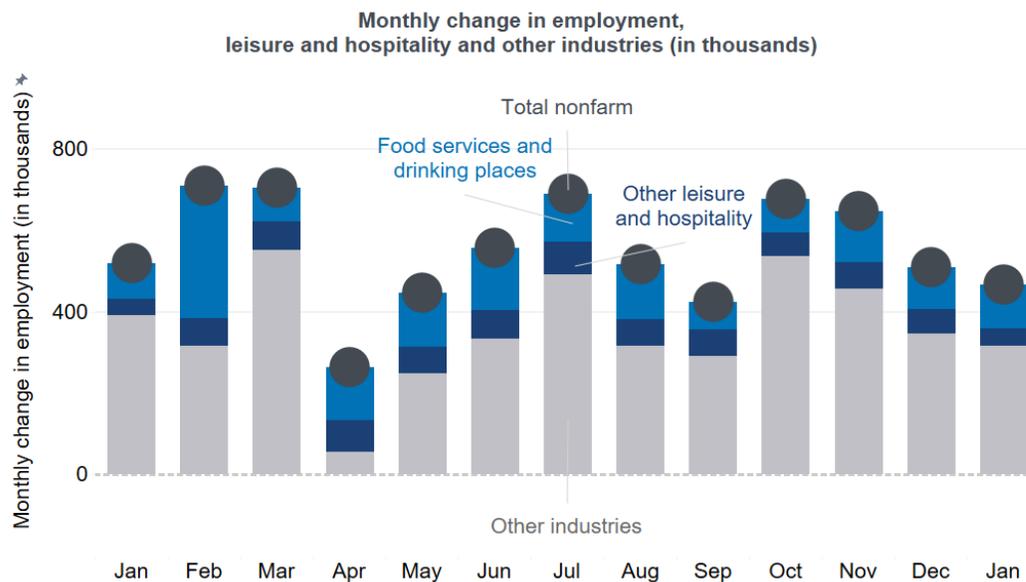
Leisure and hospitality gained 151,000 jobs in January—a possible signal that businesses have become better at continuing operations amid a surge in COVID-19 infections. A majority of other industries also added new jobs, except for construction and mining, where small job losses were recorded. On the other hand, many businesses still experienced disruptions. For example, 6 million people reported that they had been unable to work because their employer closed or lost business due to the pandemic at some point in the past four weeks, up from 3.1 million in December.

Wages continued to rise rapidly. Average hourly earnings increased 5.7 percent over the past 12 months, signaling that recruitment and retention difficulties remain high. With the unemployment rate expected to fall to near 3 percent by the end of the year, labor

markets will remain tight in 2022 and likely beyond. The US working-age population is projected to barely grow over the next decade. Employers hiring manual labor and services workers (such as transportation, construction, food services, and personal care) will face an especially hard time finding qualified workers. In such an environment, wage growth will likely remain elevated, which in turn would put more pressure on price inflation.

Some relief could come for employers if more people would return to the labor force, but the labor force participation rate is still at 62.2 percent—more than 1 percentage point below its prepandemic rate. Continued improvements in the labor market and higher wages should attract some people back to the job market, and participation rates may improve slightly during 2022. On the other hand, workers retiring early during the pandemic explain part of the gap in participation, and few of these older workers are expected to return.

Job growth in November and December was revised up by 709,000, implying job growth did not slow towards the end of 2021. This jobs report supports the Fed’s increasingly hawkish guidance, and we are currently expecting at minimum four 25-basis-point interest-rate hikes in 2022.



Source: US Bureau of Labor Statistics

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