

Nonfarm Confirms The US Economy Is Still Doing Rather Well

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), December:

Actual: 312 / 3.9 / 3.2

Scotia: 185 / 3.7 / 2.9

Consensus: 184 / 3.7 / 3.0

Prior: 176 / 3.7 / 3.1 (revised from: 155 / 3.7 / 3.1)

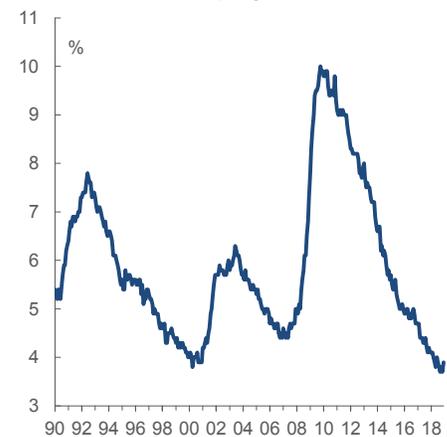
- The US numbers are unambiguously strong with jobs and wages both exceeding expectations. At the margin this should reinforce the Fed's conviction to remain on path toward a slowing pace of rate hikes.** Ahead of Chair Powell's joint 2 hour interview with former chairs Bernanke and Yellen I would expect him to reinforce much of what he said in December in that they remain data dependent, the data has been reasonably good, the market volatility that has been witnessed is being monitored but is insufficient to throw in the towel on the outlook they just published and that they are closer to the neutral range but probably not there yet. Stocks apparently like the strong job and wage figures as they place more weight upon implications for growth and against recession fears over the likelihood that the figures reinforce Fed rate hike expectations. The S&P500 is up 2% this morning.
- Strong job and wage figures fit a generally decent overall picture of the US economy so resist the temptation to cherry pick just the bad stuff.** ISM manufacturing disappointed but with a lot of caveats surrounding the context ([here](#)). GDP growth came in at 3.4% for the final Q3 estimate. The Atlanta Fed's 'nowcast' for Q4 was lowered to 2.6% in Q4 post-ISM which remains very healthy growth and post-nonfarm the estimate is likely to take a step back toward the 3% marker. Core capital goods orders slipped by 0.6% m/m in November but were revised up the prior month in offsetting fashion. Inflation-adjusted consumption growth was strong and revised up in the figures for November as the consumer sector is doing very well. Core PCE inflation *increased* to 1.9% y/y in December. Consumer confidence slipped but remains very cyclically strong. ADP private payrolls were strong ahead of nonfarm. Vehicle sales held in at 17.5 million units in December.
- Wage growth accelerated to 3.2% y/y against my expectations (and less so consensus) for a deceleration.** That's because the m/m improved to 0.4% m/m for wage growth which is double the prior month's pace and the strongest since August which itself was the strongest month-ago wage gain this year.
- The UR moved up in the US because the participation rate increased to 63.1% which is also positive (more people with more confidence to enter job markets looking for work and attracted by higher wages). The other reason the US UR ticked up is that it is derived from the household survey, not nonfarm, and the household survey registered job growth of just 142k, slower than the 419k increase in the labour supply from that survey. The household survey is even more wickedly volatile than nonfarm.
- The combined wage and price complex fans Fed rate hike expectations against the flattened profile and certainly against pricing for easing. Recall that core PCE also ticked up to 1.9% alongside these wage figures.

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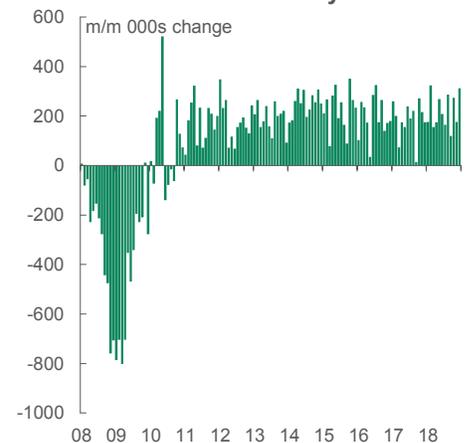
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US Unemployment Rate



Sources: Scotiabank Economics, BLS.

US Non-Farm Payrolls



Sources: Scotiabank Economics, BLS.

- The private sector added 301,000 jobs and did most of the heavy lifting as usual. Goods producing industries tripled the pace of hiring over the prior month at 74k. Service industries added 227k jobs. Within goods, the gains were in both construction (+38k) and manufacturing (+32k). Within services, the biggest gain was in health and education (+82k). Leisure/hospitality industries added 55k. Business services added 43k but only with a little help from temp hiring that was up 10k. The financial sector was little changed (+6k) and has been little changed throughout the year along with the IT sector.
- Hours worked were up by a strong 0.5% m/m.

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