US Nonfarm Payrolls Don't Support Doves

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

Actual: 304 / 4.0 / 3.2

Scotia: 200 / 3.9 / 3.2

Consensus: 165 / 3.9 / 3.2

Prior: 222 / 3.9 / 3.3 (revised from: 312 / 3.9 / 3.2)

- **If a recession is looming, then someone forgot to tell employers.** Job growth remains strong in the US economy net of revision effects that on balance were minor. Net of revisions, job growth still beat expectations by almost 70k across the three most recent months.
- **Wage growth remains firm** and there was no discernible shutdown effect on the hours worked numbers. At 3.2% and revised up the prior month to 3.3% y/y, trend wage growth is ever so slightly firmer.
- Revisions subtracted 90k from December's gain (now 222k), but added 20k to November's gain (now 196k) for a net subtraction of 70k. **That dents half of the January beat and leaves behind a modest beat overall.**
- **On net, the revision effects due to revisiting seasonal adjustment factors for the full year of 2018 were small this time.** They only added 36k to the full year's job tally.
- **Aggregate hours worked were up 0.3% m/m which reflects zero obvious shutdown effect through furloughed workers**. That might—by corollary—suggest there could be no discernible effect of the lifting of the shutdown in the next report. Also note that the February 15th threat of another shutdown would carry effects that would largely fall outside of the nonfarm reference period which is the week that includes the 12th of each month.
- **The unemployment rate ticked higher** because it is derived from the companion household survey that posted a job drop of -251k and a decline in the labour force of -11k.
- **By sector,** service industries added 224k jobs with goods producing industries added 72k. Within goods, construction added 52k as a positive outlier to the recent trend, while manufacturing jobs were up by a soft 13k. Within services, the biggest gains were in leisure and hospitality (+74k), education and health (+55k), business services (+30k) but not temp help, retail (+21k) and financial (+13k). Government added 8k mostly at the state and local level.
- **The overall stamp on this report is judged to be constructive to the outlook and does not support a dovish bias.** If the Fed keeps getting solid macro reports like this and escapes geopolitical risks into a March timeframe intact then the Powell put could well be struck down. That requires improved inflation that could well transpire given a) lagging effects of a the move toward excess aggregate demand over the past year, b) stabilization of the dollar's disinflationary influences that could well turn the other way over 2019H2, and improved real wage growth as nominal wage growth remains at a cycle high while headline inflation reflects lower fuel prices.

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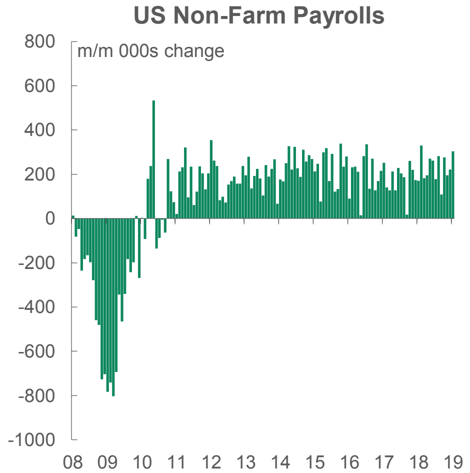

Sources: Scotiabank Economics, BLS.

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- **The main risk to the Fed has little to do with the baseline economy or inflation in my opinion. It has to do with uncertain geopolitical events** including another possible pending shutdown after Feb 15th that could but up against the lifted debt ceiling suspension on March 2nd and raise concern over the ensuing months if the ceiling is not lifted, US-China trade negotiations, Brexit, and the potential aftermath to Mueller's report. These risks could work out well (my cautiously optimistic assumption) but they could also turn out darkly. The Fed and the front-end have gone to the dark corner with the former due to risk management of policy and the latter also due to excessive bearishness toward the outlook. The potential for the Fed story to spin on a dime remains material but not for some time yet.