

Go With Stronger US Wages Over Weaker Nonfarm, For Now

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

Actual: 20 / 3.8 / 3.4

Scotia: 200 / 3.9 / 3.3

Consensus: 180 / 3.8 / 3.3

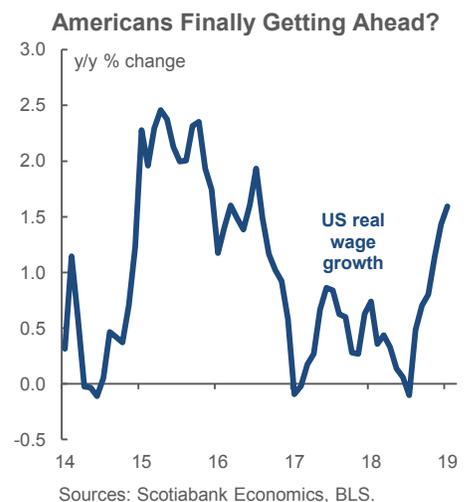
Prior: 311 / 4.0 / 3.1 (revised from: 304 / 4.0 / 3.2)

- Wage growth accelerated while job growth bombed at least by one measure. I would suggest putting more of the emphasis upon the wage figure for now and at least until the next print. Initial reactions to sell the dollar and buy the front-end have since largely reversed to leave both the USD on a DXY basis and the 2 year Treasury yield flat after the release. Treasuries are treating the report as if there are no implications by way of new information but I'm not sure I'd agree.
- Nonfarm payrolls barely grew by 20k but the household survey registered 255,000 new jobs created in a reversal of the nearly identical drop the month before and the ADP private payrolls report measured 183,000 jobs created last month. Recall that nonfarm estimates have a 90% confidence interval of +/-115,000. In repeated sampling job growth would have been anywhere between -115k and +135k and one can't just randomly favour one end over the other. **Therefore we have to take a slower picture for nonfarm payrolls for what it is: slower, but with uncertainty over exactly how much slower. That still leaves us with the puzzle over why the other measures didn't follow suit.**
- **Because of the conflicting readings, I'm inclined to put more weight upon the wage figures in this report and hold out optimism that nonfarm payrolls will bounce back in the next print.** That's no guarantee. But a confidence shock to the process of posting, searching, interviewing, extending offers and having them accepted may have been delivered by the US government shutdown from December 22nd to January 25th and the end hiring numbers reflected that by February in terms of the bodies that ultimately wound up on payrolls. The harsher than normal weather in significant parts of the country over December and January may have also impacted the hiring process. These arguments still leave behind the puzzle over why that shone through one measure and not the others, but more so for ADP than perhaps the household survey given it only recovered the drop in January with today's February print.
- **The unemployment rate fell two tenths despite the nonfarm disappointment.** That's because it is drawn from the companion household survey. The household survey registered 255,000 jobs created while 45,000 people left the workforce to shrink the labour supply. The combined effects lowered the unemployment rate and tightened slack in the job market.
- That is to say *if* there is any slack. One of the most transparent guides to whether slack exists or not is the price signal sent by wage data. **Nominal wage growth accelerated to 3.4% which is the fastest pace since April**

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2009. More notable is that the trend has significantly accelerated over the past year as shown in the first accompanying chart. With the acceleration in nominal wage growth and tempered headline inflation, real wage gains are accelerating toward a two-and-a-half-year high. See the second accompanying chart. This may reinforce the argument that the wage Phillips curve is anything but dead.

- By sector, private job growth went from 308k in January down to 25k in February. Government jobs fell by only 5k, all at the state and local level. Service sector gains went from 227k in January to 57k in February. The goods sector dropped 32,000 jobs led by a 31,000 decline in construction and with manufacturing jobs up by only 4k. Within services, the only bright spot was business services (+42k), and not due to temp help that was only up 6k. All other sectors were little changed.
- Total hours worked fell 0.3% m/m after rising by 0.2% and 0.5% in the prior two months of January and December respectively. Again, I'll wait for more data before getting worried about a stalling job market.

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