Is US Wage Growth Peaking?

- Job growth disappointed expectations and has shifted down in 2019
- Wage growth surpassed expectations, but is plateauing
- More workers seeking jobs and slowing job creation…
- ...could well cap wage growth

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), August:
Actual: 130 / 3.7 / 3.2
Scotia: 150 / 3.7 / 3.0
Consensus: 160 / 3.7 / 3.0
Prior: 159 / 3.7 / 3.3 (revised from: 164 / 3.7 / 3.2)

For a measure that has a 90% confidence interval of +/- 110,000, statistically speaking one shouldn't get overly fussed by a 130k nonfarm reading versus consensus expectations for 30k more jobs. But markets perhaps did, as the two year Treasury yield fell and the dollar depreciated after the release.

Why? Wage growth surprised higher than estimated, but is still plateauing this year while trend job growth has noticeably shifted lower in 2019. On average, monthly job gains have been 158k this year versus 223k last year. With a rising labor force participation rate that climbed a half point in three months, more workers looking for jobs amidst slowing hiring may indicate that wage growth has indeed topped this cycle.

Wage growth landed at 3.2% y/y and was revised up a tick to 3.3% the prior month. Given there are measurement spreads around this estimate as well, let's not get too carried away, but it is firmer than expected. In month-ago seasonally adjusted terms, the 0.4% rise was the strongest this year. It's still the case that wage growth has roughly plateaued this year in the US with monthly gyrations running between 3.1% and 3.4% dating back to last Fall after the acceleration over 2015–2018. See the accompanying chart.

The service industries added 84k workers is a slow down from the 130k+ performances over the prior two months. Within services, the gain was driven by business services (+37k) with a modest assist from temp help (+15k), education/ health (+32k), financial (+15k) and leisure/hospitality (+12k).

Government hiring was up by 34k and this follows a 28k rise in July. This time, it was almost all at the Federal level versus the state/local levels in July.

Revisions removed 20,000 workers from the past two months compared to prior estimates, and mostly from the June estimate. On net, when the headline miss and revisions are combined, job growth was about 50k lower than consensus assuming no revisions were forecast.

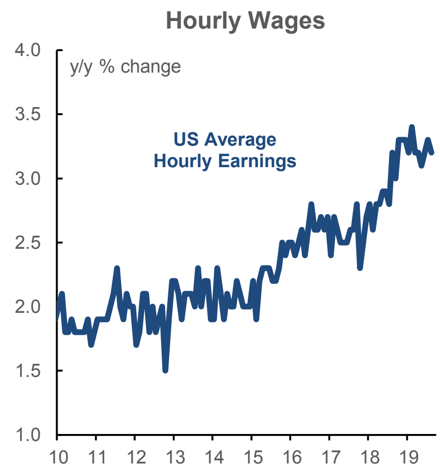
The unemployment rate held steady at 3.7% because it is derived from the sister household survey that registered a 590k job increase and a nearly identical expansion of the labor force (+571k).

Total hours worked were up 0.4% m/m which is the strongest pace since March. Hiring was held back as hours worked were ramped up.

The next nonfarm payrolls report may be more critical. This one slowed as trade tensions climbed, but not as much as nonfarm hiring cooled in May around similar circumstances. September payrolls could more fully capture the escalation of trade tensions.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Sources: Scotiabank Economics, Bureau of Labor Statistics.