The Fed Can Still Say Job Gains Are 'Solid'

- Nonfarm payrolls beat the fear factor…
- …even without the help of upward revisions…
- …and the underlying drivers were solid
- The unemployment rate fell…
- …because of soft labor force growth
- Wage gains decelerated by more than expected…
- ...as the prior month's outlier gain mean-reverted…
- …and 2018 wage growth was stronger than initially figured
- The Fed will still say job gains have been 'solid'
- The probability of a Fed cut on October 30th slipped, but remains high

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

Actual: 136 / 3.5 / 2.9

Scotia: 150 / 3.7 / 3.1

Consensus: 145 / 3.7 / 3.2

Prior: 168 / 3.7 / 3.2 (revised from: 130 / 3.7 / 3.2)

Markets generally liked what they saw in an overall mixed set of messages about the health of the US job market. Job growth beat expectations and thus came in better than the fear factor that was driven by over-reliance upon poor quality advance signals like ADP and ISM. Revisions to job growth were positive. Breadth was decent and not overly distorted by considerations like Census hiring.

Overall I think the broad market reaction here makes sense in general. Treasury yields are a little higher mostly at the front end, but they are not whipsawing in any major fashion. Equity futures had been down about 0.4% for the S&P before the data but sprang higher by 1% afterward. The USD is gently stronger. Markets are encouraged that the fear factor attached to nonfarm payroll risks didn't materialize, but discouraged by wage growth and sawing off toward a slightly positive take toward the overall consequences.

Revisions added 45k to job growth over the prior two months with much of that concentrated in August that was revised up to 168k from 130k. Including revisions, there were 36,000 more jobs created than estimated by consensus.

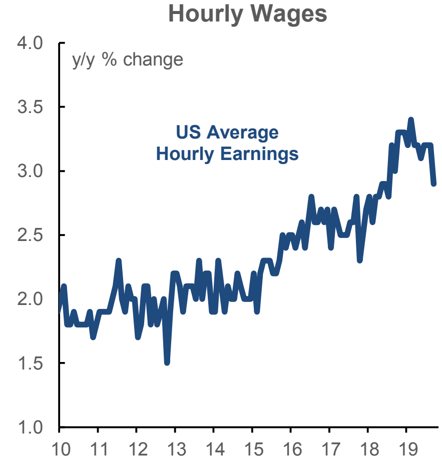
The fly in the ointment was that wage growth decelerated (see chart), but it's worth a word of caution. The reason wage growth fell to 2.9% y/y (3.2% prior) was two-fold. One is that month-ago wage growth was 0% m/m for the weakest reading since October 2017, but this follows a 0.4% gain the prior month that was the strongest this year and so wage growth at the margin simply mean-reverted. Second, wage growth from August through November of last year is about 0.2–0.3% higher than initially reported.

Census hiring wasn't a clear factor here so be careful with the government component. Government hiring was up by 22k after 46k and 44k the two prior

CONTACTS

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

Hourly Wages



Sources: Scotiabank Economics, Bureau of Labor Statistics.

months, but most of that was at the state & local level, not the federal level where census hiring is occurring. Federal level hiring was -2k in September after +28k and 0k over the two prior months.

Across sectors, there were generally diverse gains across services like education/health (+40k), leisure/hospitality (21k) and business services (34k of which only 10 in temp help). Goods-producing industries clocked flat employment (+5k) with construction up only 7k and manufacturing at -2k. Total services employment increased by 109k.

Hours worked were up 0.1% after a large 0.5% prior gain so they held in.

The drop in the UR to 3.5% is because it comes from the household survey that clocked a job gain of 391k and a flat participation rate. The labor force only increased by 117k so by less than what the household survey indicated for job growth.

Recall that job gains around 110k or so are estimated to be what is required to keep the UR stable over time. So we're still getting figures a little higher than that. The three month moving average is 157k which is a marked slow down compared to last year. Make no mistake about it, job growth has materially slowed on a trend basis this year. From an average monthly nonfarm payroll gain of 223k in 2018, job growth in 2019 is averaging 161k. Risks to the hiring outlook may well remain pointed lower going forward.

On net, that means that the Federal Reserve is likely to continue to describe the pace of job gains as ‘solid’ in the next statement on October 30th. Chair Powell may broach this topic in opening remarks this afternoon (2pmET) but the greater risk to Fed communications likely lies ahead when he speaks on the economy and policy on Tuesday. There is enough evidence of souring activity readings to merit additional insurance while the Fed is likely to roll out a suite of tools to address pressures in short-term rates markets.

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