US Nonfarm Counters Recession Talk, Fed Could Upgrade Jobs Reference

- Nonfarm strongly beat expectations…
- ...mainly through positive revisions
- October payrolls avoided downside risk...
- ...because baseline job growth accelerated…
- ...by enough to offset strikes and the Census reversal
- The Fed could upgrade its job market reference in December
- Wage growth returned to 3%
- Trend job growth sits at about 200k…
- …which strongly counters recession talk
- Productivity & hours worked are being sacrificed
- Trump is just an average President on job growth

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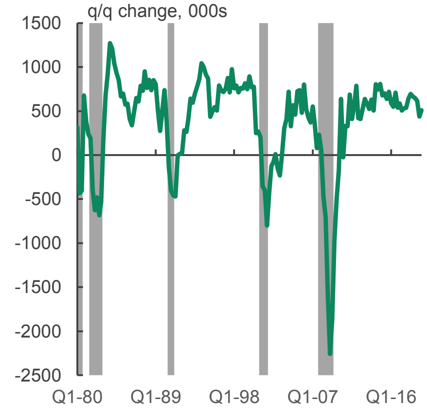
U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), October:
Actual: 128 / 3.6 / 3.0
Scotia: 100 / 3.6 / 3.0
Consensus: 85 / 3.6 / 3.0
Prior: 180 / 3.5 / 3.0 (revised from: 136 / 3.5 / 2.9)

If the US economy is already in or going into a recession, then someone forgot to tell employers. Despite trade frictions, the GM strike and the reversal of Census hiring, job growth still blew out the lights compared to expectations. Upward revisions to the prior two months played a major role in the overall nonfarm beat and could lead the Fed to upgrade its job market language in the next statement.

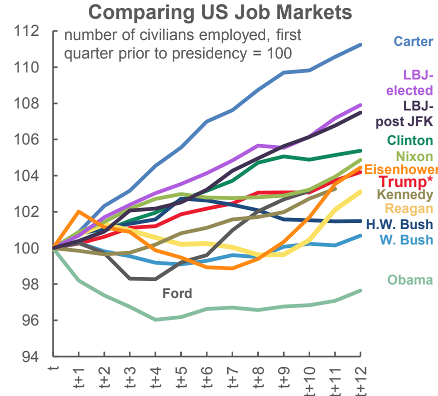
There was a fairly muted market reaction. Two year Treasuries moved up by about 3bps while 10s moved up 2bps. Equity futures rallied and the cash market has the S&P up 0.7%.

Before turning to the details, there are only a handful of cautions I can suggest to the impressive headline and the details that reinforce the positive interpretation. One is to remind everyone that the 95% confidence interval around nonfarm changes is +/- 110,000. Two is to suggest that US employers are meeting production requirements by heaping more workers onto payrolls as a substitute for investing. The capital:labour ratio is turning against productivity growth which is typically not great for earnings. Three is that hours worked are trending softly as more bodies get added. Fourth is that the up-tick in the unemployment rate may indicate continued labour market slack.

The net beat to consensus expectations including revisions was 138k as the prior two months were revised up by a cumulative 95k on top of the 28k October beat. Revisions got split about evenly between September and August.



Sources: Scotiabank Economics, BLS.



Sources: Scotiabank Economics, BLS.

So what happened? Our 100k was in the ballpark for October's 128k rise, but almost 100k in upward revisions to the prior two months is something tha tis impossible to anticipate. **I had nevertheless warned of downside risk to 100k and obviously that didn't happen.**

Why? It was the baseline pace of job growth that surged enough to offset the 47k strike effect plus the loss of 20k Census workers that drove the Federal government down by about 17k. To overcome almost a large 70k hit from strikes and Census reversals without even considering indirect knock-on effects of the strike results in a pretty powerful baseline effect onto which revisions get added.

Wage growth accelerated to 3.0% y/y and was revised up to 3.0% the prior month.

Across sectors, goods sector jobs took a -26k job hit but that's much smaller than was assumed. Within goods, construction jobs were up 10k but manufacturing fell 36k on the autos effect.

Services added 157k and have added about 160k in each of the past three months. **That accounts for a the revised acceleration in job growth compared to the May to July period when service sector jobs grew at a three month average of 112k.**

Within services, the biggest gain was in leisure and hospitality (61k) followed by education and health (39k), business services (22k, with temp down 8k), financial services (16k) and trade/transport (+26k).

Within autos/parts, there was a small amount of net hiring by non-GM employers to offset a bit of the strike effect as the sector's overall hiring fell by 42k which is less than the roughly 47k strike effect.

There is little evidence of spillover/multiplier effects to the strikes that I find tough to believe, or the hiring in those sectors outside of the indirect strike effects accelerated.

Hours worked grew at a tepid 0.1% m/m pace for the second consecutive month. The hand-off math from Sept–Oct figures points to a soft Q4 for hours worked and hence this driver of incomes into the holiday season.

The unemployment rate ticked up to 3.6% because it comes from the sister household survey that registered a job gain of 158k and a larger labour force gain of 325k. There were more people looking for work than found jobs according to that survey. This indicates that the US labour market still may have slack.

For the Fed, they could well be on the path to upgrading the job market reference from "job gains have been solid" to strong or "have strengthened". Over the past three months, we've seen 128k in October that is more like 195k after adding back strikes (47k) and Census (20k) hits. That adds to what is now reported to be +180k for September and +219k for August. That makes for a three month moving average adjusted for strikes and Census that is just shy of 200k (198k). That is well above most estimates of the pace of job growth that is needed to absorb natural workforce expansion over time. This kind of job growth makes it look like the Fed knows a lot more about what it's doing with rates than President Trump argues.

For economy watchers, **one doesn't get a recession any time soon when trend job growth is hovering around 200k!** See chart 1.

President Trump was quick to pounce on the numbers but his math was debateable when he tweeted:

> "Wow, a blowout JOBS number just out, adjusted for revisions and the General Motors strike, 303,000. This is far greater than expectations. USA ROCKS!"

128k + 47k + 95k (October plus strikes plus revisions) equals 270k. Even adding back the Census effect (-20k) as a one-off gets to 290k.

Further, chart 2 compares cumulative job growth over the terms of past US Presidents up to a comparable point in their terms to where Trump is now. **Trump is just average.** In fact, right smack in the middle of the pack of past Presidents without adjusting for anything including, for example, the fact that Obama's term was walloped by the global financial crisis.