The Fed Might Upgrade Its Labor Market Assessment In Next Week's Statement

- Nonfarm payrolls smashed expectations…
- ...as baseline job growth accelerated…
- ...and was reinforced by a reversal of strike & census effects
- The Fed might upgrade its job market reference next week
- Wage growth picked up, but remains on a cooling trend this year…
- ...and is not inflationary given productivity trends

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), November:
Actual: 266 / 3.5 / 3.1
Scotia: 200 / 3.5 / 3.0
Consensus: 180 / 3.6 / 3.0
Prior: 156 / 3.5 / 3.1 (revised from: 128 / 3.6 / 3.0)

Job growth smashed expectations as nonfarm payrolls defied the head fake provided by ADP's weak report as anticipated. Nevertheless, the dominant driver was an acceleration in baseline job growth, not a reversal of transitory factors.

By sector, jobs were up by 206,000 in services and 48,000 in goods. Within goods, manufacturing added 54,000 and construction was flat.

Within the services sector, the gains were pretty evenly dispersed. Education and health led the way with a 74k rise. Leisure and hospitality was in second place at +45k. Business services added 38,000 workers with no quality dent in terms of temp help that only climbed by 5k. Despite headline announcements, the financial sector added 13,000

The GM strike distortion fully shook out of the figures as expected. The autos and parts category saw employment rise by 42,000 in November after falling by 43,000 in October. Recall that nonfarm counts only paid employees on payroll whereas ADP counts employees on payroll whether paid or not. Thus ADP is insensitive to strike effects whereas nonfarm is sensitive to strike effects.

The unemployment rate edged lower to 3.5% but it is derived from the companion household survey that registered a job gain of just 83k that was nevertheless double the rise of the labor force (+40k).

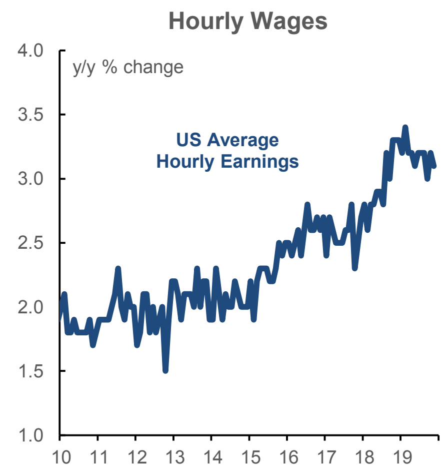
Private sector payrolls were up by 254k as the government sector was flat (-1k). The prior month's -16k drop in federal government hiring that was driven by the reversal of Census jobs dropped out as an influence on November payrolls as expected.

Wage growth picked up a little to 3.1% y/y (2.9% prior). Having said that, wage growth has been generally trending lower this year (chart 1). It is also not inflationary as real wage gains are generally in sync with productivity gains (chart 2).

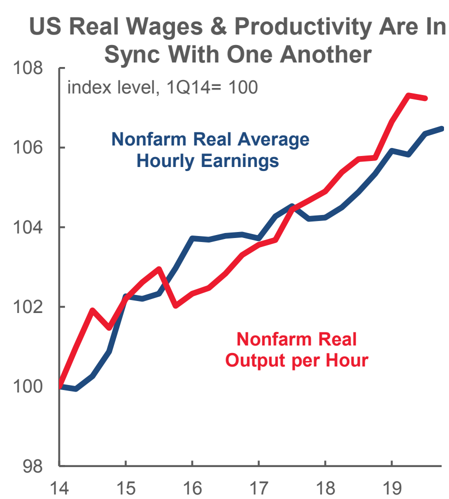
For the Fed, they will have cause to repeat reference to how the "labor market remains strong" in next week's statement but they might upgrade the reference to how "job gains have been solid." The three month moving average for payrolls growth is now back over 200k at 205k. That's the highest since January. Recall that the Fed statements last referenced job growth as "strong" back in January before subsequently shifting to "solid" from the March statement onward.

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.



Sources: Scotiabank Economics, BLS.