March 6, 2020

US Job Markets *Were* Strong

- Job growth solidly beat expectations including through revisions
- Wage growth cooled…
- ...adding to pre-virus disinflationary evidence
- Nevertheless, this report is a stale assessment…
- …with the focus upon future hiring appetite

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), February:
Actual: 273 / 3.5 / 3.0
Scotia: 170 / 3.6 / 2.9
Consensus: 175 / 3.6 / 3.0
Prior: 273 / 3.6 / 3.1 (revised from: 225 / 3.6 / 3.1)

Hiring activity was robust, before markets started to fall apart. Job growth including revisions beat expectations and pushed the unemployment rate lower, but wage growth also decelerated. The latter factor is the most important in my view.

Nevertheless, the reference period for the nonfarm establishment survey is the pay period including the 12th day of the month (the household survey's reference period is the 15th day). Thus, since this reference period precedes accelerating concerns about the outlook and market developments, it should be treated as stale. The S&P500 began to crater after February 20th as COVID-19 concerns spread and with moderately rising evidence of strain emerging across measures of financial stress. The forward-looking issue is whether hiring confidence will hang in going forward which would seem unlikely as firms seek to address a weaker earnings outlook through enhanced focus upon cost controls.

On net, nonfarm payrolls beat expectations by about 183,000 including the 98k beat to consensus for February plus the 85,000 extra jobs due to upward revisions to each of the two prior months. Job growth in January was taken up by 48k in January to 273k and by 37k in December to 184k.

Chart 1 shows the impressive trend that had been in place.

Chart 2 shows the sector break down. Job creation was led by the private sector (+228k) but governments added 45k after adding 51k jobs the month before. This public sector hiring activity is concentrated at the state and local levels, as Federal government hiring was just 8k and 10k in February and January respectively.

By sector, goods producing employers added 61k jobs which was the most since January of last year, while service oriented firms added 167k. Within goods, construction added 42k for the second straight robust month and manufacturing added 15k.

Within services, the gain was led by four sectors: education/health (+54k); leisure and hospitality (+51k); business services (+41k) with no assist from temp hiring (-3k) and the financial sector (26k). The retail trade and transport sector lost a small amount of jobs.

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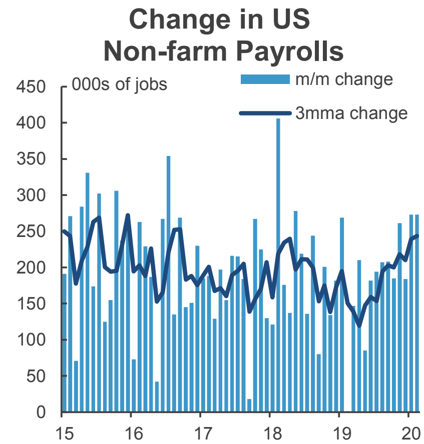
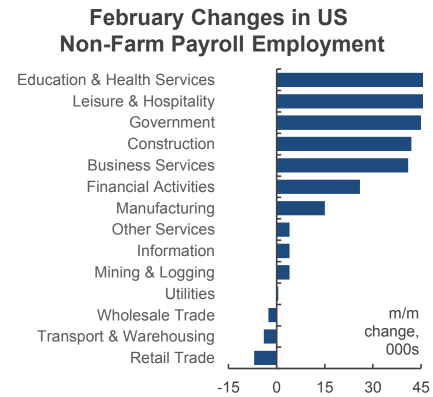
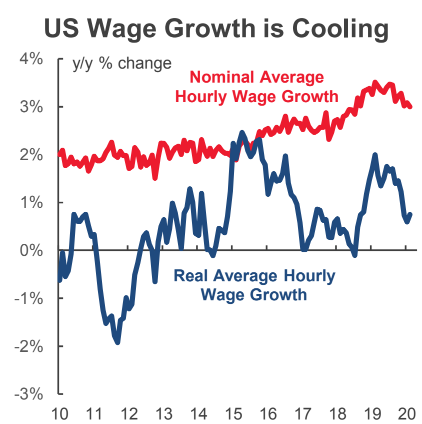


Sources: Scotiabank Economics, US BLS.



Sources: Scotiabank Economics, US BLS.



Sources: Scotiabank Economics, US BLS.

Wage growth cooled with nominal gains slipping to 3.0% y/y and down from the 3.5% peak of a year ago. Real wage growth has decelerated faster and is very weak, but might perversely get a mild bump when CPI comes out next week given the impact of lower gasoline prices. Wage disinflation adds to broader evidence of disinflationary pressures including the downside to expected core PCE inflation in January and the downward revision to unit labour costs. One could argue that the Fed had ample cover to ease even before the virus.

Hours worked were up by a quite strong 0.5% m/m.

The unemployment rate edged lower because the companion household survey registered a smaller 45k job gain but 60,000 left the workforce.