US Nonfarm Payrolls Beat On Mostly Solid Details

- **Job growth handily beat expectations including positive revisions**
- **Most details were constructive**
- **A weather bounce & government hiring were mild quality dents**
- **Hours worked support strong Q1 GDP growth**
- **Markets pushed yields and the dollar higher**
- **Powell and Biden will still say good, but far from goals**

US nonfarm payrolls, m/m change 000s / UR / wages y/y %, SA, March:
Actual: 916 / 6.0 / 4.2
Scotia: 650 / 6.0 / 4.7
Consensus: 660 / 6.0 / 4.5
Prior: 468 / 6.2 / 5.2 (revised from 379 / 6.2 / 5.3)

Nonfarm payrolls handily beat expectations at +916k (consensus 660k) and adding in positive revisions brings the tally to 1.072 million for a net beat to consensus of 412k. The details are mostly constructive in terms of breadth with less of a role played by the most directly hit pandemic services in leisure/ hospitality, but the weather rebound effect in construction and heavy state/local government hiring knock some of the confidence out of the headline. Nevertheless this is a solid report overall.

Revisions added another 156k including another 89k in March and another 67k added to February.

Markets reacted by pushed Treasury yields higher across the curve. 5s through 10s cheapened by about 5–6bps and 2s climbed by about 2bps. The USD was rallying into the numbers and is generally sticking to a slight bid.

Fed Chair Powell would say that's encouraging, but we still have 8.4 million who once had jobs before the pandemic but still don't. Chart 1 shows progress to date in the two measures of employment and chart 2 shows the breakdown of net jobs lost to date during the pandemic by sector. The underemployment rate is still at 10.7% versus about 7% pre-pandemic (chart 3). The participation rate ticked up last month but is still lower at 61.5% versus 63.3% pre-pandemic. Permanent layoffs are still at 3.4 million (down only 65k today) versus 1.3 million pre-pandemic.

President Biden speaks later this morning on jobs so that's also likely to be his take (good, but far from goals). Still, to get back to full-employment by the end of 2022 would require about 400k jobs gained on average per month which is achievable as vaccines and fiscal stimulus kick in.

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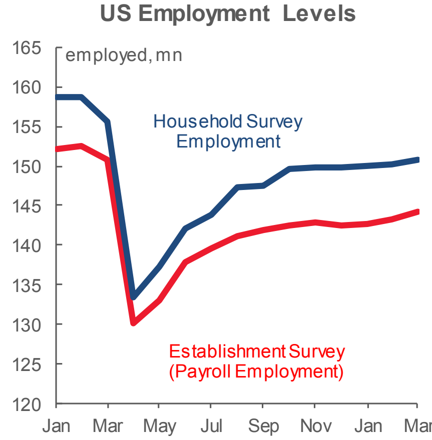
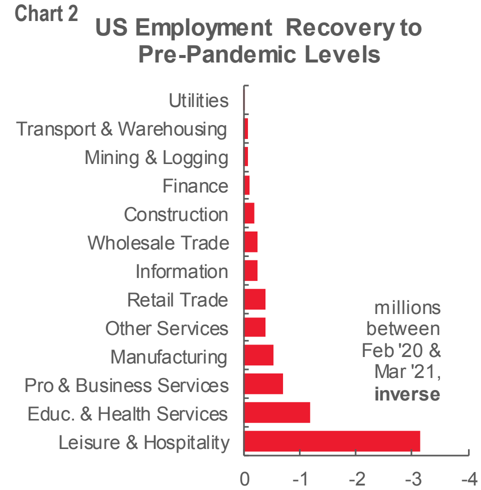
Chart 1



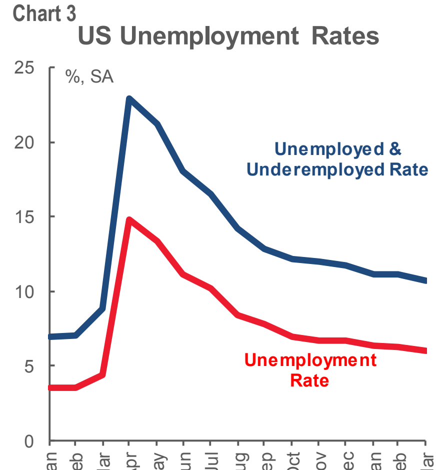
Sources: Scotiabank Economics, US BLS.

Chart 2



Sources: Scotiabank Economics, US BLS.

Chart 3



Sources: Scotiabank Economics, US BLS.

Most of the gain was in the private sector that added 780k jobs, but government played a notable role by hiring 136k workers (prior –90k) almost all at the state and local levels as Federal government hiring was up only 7k. Funny, I thought state and local governments were cash strapped.

By sector (chart 4), there was healthy participation by the goods producing industries this time, though some of that was a weather bounce in construction. Goods producing industries added 183k jobs led by construction (+110k versus –56k prior) but manufacturing also added 53k for its biggest gain since September.

Service sectors added 597k which is almost identical to the prior month's gain of 602k. The mix was a bit different this time though. The pandemic-struck leisure and hospitality sector added 280k which was down from the 384k rise the prior month. That was made up for by gains elsewhere including education/health that added 101k, trade/transportation that added 94k including a 23k rise in retail sales. That temp help (-1k) was a neutral driver was somewhat encouraging in that it's always better to get more permanent job gains.

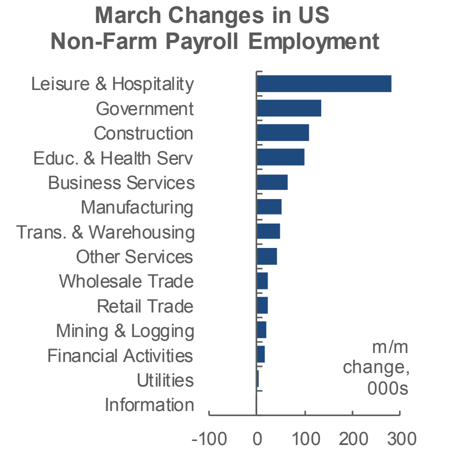
Hours worked were up by 1.5% m/m for the largest rise since last June. Including revisions, hours worked for Q4 now show a gain of +8% q/q SA annualized and Q1 posted another 3.1% rise (chart 5). Recall GDP is an identity defined as total hours worked times labour productivity (itself as real GDP divided by hours worked) so the solid gain in hours worked confirms expectations for continued strength in Q1 GDP growth. Our forecast is for Q1 GDP to land at about +4.5% and there might be upside to that.

The unemployment rate fell two-tenths and is derived from the household survey that clocked a 609k job gain versus a 347k expansion of the labour force.

The decline in wage growth (4.2% y/y down from 5.2% the prior month which was revised from 5.3%) is a continuation of the pattern toward lower average wages as the pandemic-struck service jobs come back at lower than average wages in many cases (chart 6). So it remains a distortion owing to the shifting composition of jobs.

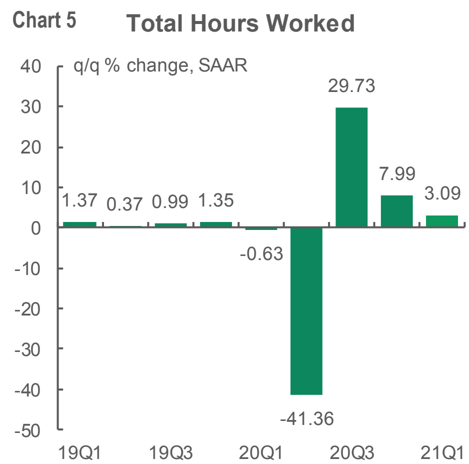
Those on temp layoff fell by 203k while those on permanent layoff declined by a more modest 65k (chart 7). Both categories remain higher than pre-pandemic levels. The pre-pandemic level of temporarily laid off employees was roughly in the 650-800k range each month, soared to a peak of 18.1 million last April and has since fallen back to 2.03 million now. The permanent loss category was at about 1.3 million pre-pandemic, increased to a peak of 3.72 million last November, and has fallen back a little to 3.4 million now.

Chart 4



Sources: Scotiabank Economics, US BLS.

Chart 5

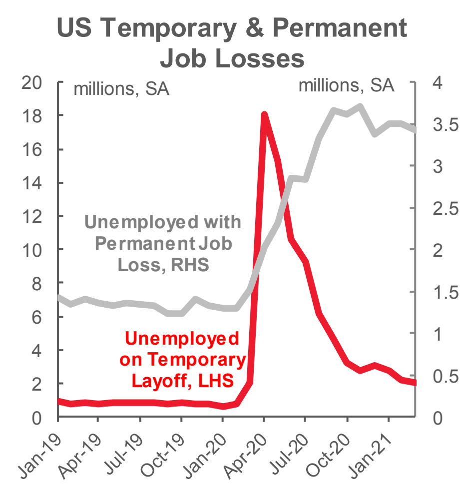


Sources: Scotiabank Economics, StatsCan.

Chart 6

Sources: Scotiabank Economics, BLS.

Chart 7



Sources: Scotiabank Economics, US BLS.