May 7, 2021

Why You Should Take The Nonfarm Disappointment In Stride

- **Payroll growth decelerated and landed much lower than expected**
- **Details generally reinforced the softer headline**
- **Theories behind why payrolls disappointed are offered…**
- **…and may counsel looking through this report**

US nonfarm payrolls, m/m change 000s / UR / wages y/y %, SA, April:
Actual: 266 / 6.1 / 0.3
Scotia: 1300 / 5.8 / -0.1
Consensus: 1000 / 5.8 / -0.4
Prior: (revised from 916 / 6.0 / 4.2)

Whoever put jobs numbers on a Friday is among the cruellest human beings alive. Still, I would avoid the temptation to over-react to a sharply disappointing reading. Everyone in consensus including myself has to wear this one from an accountability standpoint and so I'll give an assessment of where things skidded off the rails below. I think it's more important to start with the reasons for why one should not over-react even as the dollar depreciated ½%, the US 10 year yield fell by as much as 10bps before chopping that reaction in half and equities rallied in apparent love for reduced risk of less stimulus—for now—rather than the debatable signal toward weaker than expected growth.

So why not over-react? What may have been the best and most over-looked clue to this disappointment were the anecdotes within the ISM surveys that pointed to difficulty hiring workers given issues such as mismatched skillsets, hesitancy to return to work just yet given still circulating COVID-19 cases and progress that is still well shy of inoculation plus the possibility that parents were still held back with their kids from returning to school. If that narrative is the correct one, then as confidence builds with rapid ongoing deployment of vaccines and diminishing cases then there may be strong pent-up hiring demand ahead of us and not too far ahead at that.

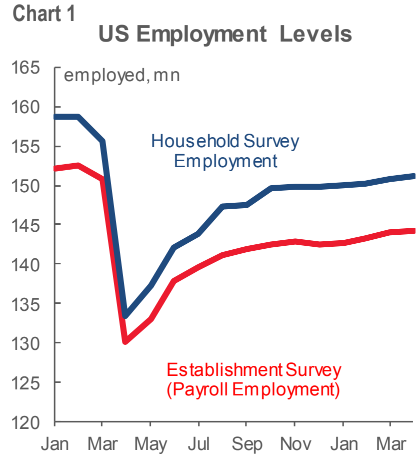
As evidence of this narrative just have a look at hours worked. With apologies to Crosby, Still & Nash, if you can't hire the ones you'd love then love the ones you're with by working them even longer. Hours worked climbed 0.5% m/m and are tracking a gain of 5% q/q in Q2 over Q1 based upon what we know so far. That's an acceleration compared to the 3.1% pace in Q1 over Q4.

Still, while nonfarm rules the land by way of employment indicators, I can't recall another time offhand when it strayed so far from every other hiring signal we had in advance. Jobless claims fell by the most between reference periods since last August when 1.6 million jobs were regained. ADP accelerated to its fastest since last September. ISM-services-employment picked up. The Conference Board's consumer confidence jobs availability reading increased by the most on record.

CONTACTS

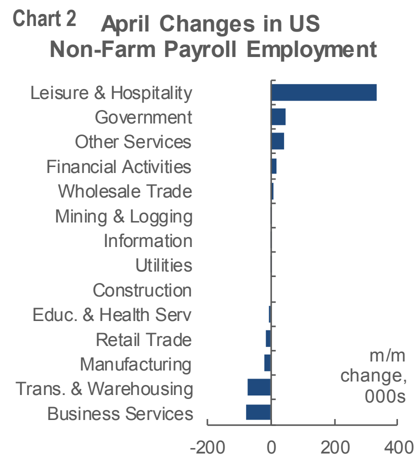
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1



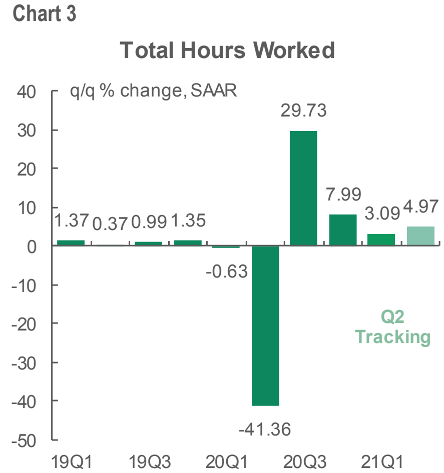
Sources: Scotiabank Economics, US BLS.

Chart 2



Sources: Scotiabank Economics, US BLS.

Chart 3



Sources: Scotiabank Economics, StatsCan.

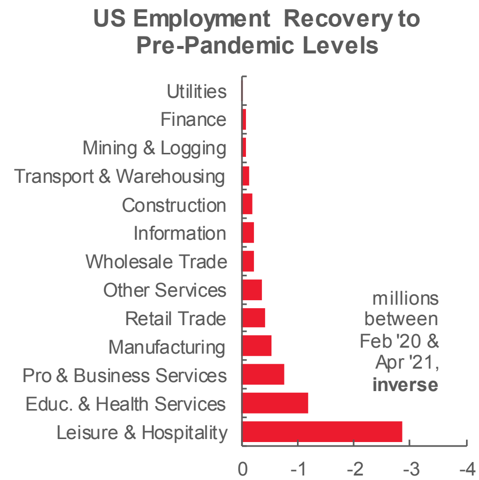
Measures of restrictions notably eased ahead of and into the reference period. But nonfarm disappointed by posting a deceleration of about half a million jobs compared to the prior month's pace? Fell a half million shy of the most pessimistic estimate within consensus?? A historical miss might just leave a bit of room for caution here.

Is it also possible that extended and enhanced jobless benefits are creating excess competition with employers seeking to expand their workforces? One argument against this is that claims keep falling so fewer people are actually applying for expanded benefits. One argument for this theory, however, is that the 9.8 million unemployed might still find it tempting to stay sidelined if they're getting paid anyway and why bother going back to work in restaurants, bars, etc if that's the case. Keep slipping them stimulus cheques in two batches so far this year and that even further lessens the motivation to return to a paying job. In fact, depending upon where one lives in the country—and hence the generosity of combined federal and state benefits—it may be that it's more attractive to sit on the couch than it is to return to same or lower pay. If that theory is correct, then "progressive" fiscal policy is at loggerheads to Fed policy desires to get back to full employment quickly. If so, then scale back the benefits if not by Fall as scheduled then sooner and with progress on vaccinations and new cases the guiding factors.

That's all why I'm hesitant to read too much into this from a Fed narrative standpoint. Kashkari's at times mischievous tendencies got the better of him again off the mark when he took a poke at Fed critics for doing too much. One month of backward-looking jobs numbers doesn't re-write a Fed narrative and if we see this burst of pent-up hiring with a little longer lag than had been hoped for then taper on my friends, taper on. In any event, nonfarm disappointment or not, while the Fed should be retaining material stimulus, to be clinging to extreme emergency stimulus that was set in the darkest days of the pandemic seems excessive when we are pretty clearly past the truest point of the emergency

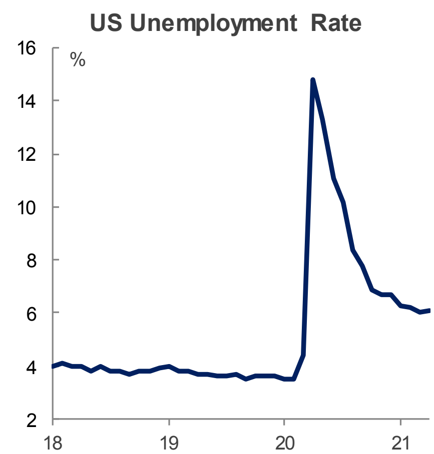
More important is this: what if there is such a mismatch of required labour compared to the ones that may be permanently unemployed that America's NAIRU is being shocked higher such that wage growth could accelerate going forward notwithstanding idle workers? Maybe the Fed's constant harping on about still unemployed workers benchmarked to who had a job in February last year exaggerates the true estimate of full employment. A bun flipper is of little use on an automotive assembly line just as a cruise ship worker would be out of place in Silicon Valley. Applying too much stimulus to a fundamentally changed workforce could be fraught with risk.

Chart 4



Sources: Scotiabank Economics, US BLS.

Chart 5



Sources: Scotiabank Economics, BLS.

As for the details, here they are:

- Chart 1 shows the only mild progress toward recapturing lost jobs.
- revisions were a negative this time, down 78k over the prior two months with all of that in a 146k downward revision to March (-146k) offset in part by a 68k upward revision to February.
- The goods sector shed 16k while the services sector added 234k. Within goods the dip was in manufacturing (-18k). Chart 2 shows the breakdown of the change in jobs by sector.
- Within services, the rise in leisure and hospitality sector employment led the way (+331k) but was a disappointing rebound compared to the pace of reopening. Still, 950k jobs have been recouped in this sector over the past three months. Take out a 111k drop in temp help to favour more durable forms of employment, but that still left the rest of the picture to be rather disappointing.

- Chart 3 shows the gain in hours worked that is being tracked into Q2 assuming May and June come in flat only to focus upon the effects of what we know so far.

- Chart 4 shows the cumulative progress to date in employment by sector since the start of the pandemic.

- the unemployment rate ticked up to 6.1% from 6.0% and is derived from the companion household survey that showed a job gain of 328k that was exceeded by a 430k rise in the labour force (chart 5).

- State and local governments continued hiring. Government added 48k jobs last month with only 9k at the Federal level while the prior month saw 62k more government jobs with the vast majority at state/local governments.

- Wage growth collapse in year-over-year terms as generally expected and I wouldn't pay much attention to that (chart 6). It went from 4.2% y/y in March to 0.3% in April because of rebasing to April 2020 when average wages perversely moved higher as lower paying jobs in services that were hardest hit by the pandemic took on a disproportionate share of the lost employment. The 0.7% m/m rise in wages was likely due to fewer returning pandemic-stricken workers than had been expected.

Chart 6

Sources: Scotiabank Economics, BLS.