October 8, 2021

Nonfarm Was Just Barely Good Enough For The Federal Reserve

- **Job growth fell below consensus expectations…**
- **...but ticks the box for the Fed to taper…**
- **...so Treasuries sold off**

US nonfarm payrolls, m/m 000s // UR (%), SA, September:
Actual: 194 / 4.8
Scotia: 250 / 5.2
Consensus: 500 / 5.1
Prior: 366 / 5.2 (revised from 235 / 5.2)

Good enough. That about sums it up in a word or two insofar as assessing the implications of a gain of just under 200k jobs last month.

FEDERAL RESERVE IMPLICATIONS

Why? Fed Chair Powell had said that “it would not take a knock-out jobs report to meet the test, only a reasonably good report.” That’s exactly what we got here. An ok, hardly blow-out report that keeps the job market gradually moving in the right direction. Recall that this is the last nonfarm payrolls report that the Fed gets ahead of its November 3rd communications since the next payrolls release will arrive two days afterward.

A negative print could have derailed such taper plans or at least temporarily postponed them. That didn’t happen and so that’s why we saw the US Treasury curve steepen on the outcome with the 10 year yield up 3bps on the day and slightly more since the release time. The dollar had been selling off into the report but gained a small part of that back afterward. What was avoided here was an outright drop that could have happened. Now markets will move onto their next obsessions including the Q3 earnings season that starts next week and the next CPI inflation report that I think will pop higher again.

DETAILS

Job growth came in well below consensus expectations but in line with the Scotia Economics’ house view. A net 194,000 jobs were created last month which would be no slouch during more ‘normal’ times. Given the magnitude of the pandemic’s effects there is always the hope that jobs will bounce back at the quickest rate possible, but moderate progress was still achieved toward this goal last month.

The US remains about 5 million below the level of employment that existed seemingly an eternity ago back in February 2020. Given the Fed’s dual mandate of full employment and price stability, Chair Powell is still able to argue that the US is not yet at full employment notwithstanding the surge in inflationary pressures (chart 1). How much of the remaining 5 million may come back and whether more than that number is feasible remain live debates.

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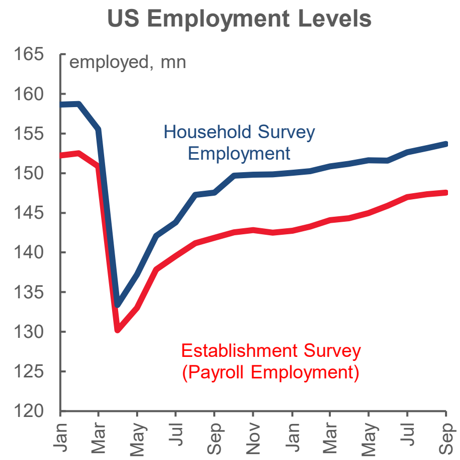
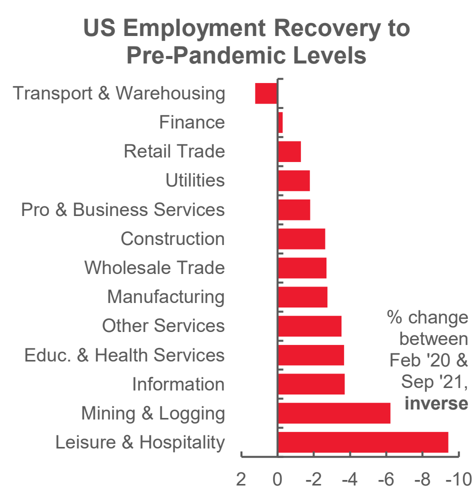
Chart 1



Sources: Scotiabank Economics,US BLS.

Chart 2



Sources: Scotiabank Economics, US BLS.

Chart 2 breaks down the cumulative recovery in employment by sector since the start of the pandemic. The only main sector that is up is the transportation and warehousing category. All other sectors are still down and led by leisure and hospitality.

Chart 3 shows where the job gains—and some losses—occurred last month by individual sector.

All of the job gain was in the private sector (+317k) as the government shed 123k jobs all at the state and local levels.

Most of the private sector gain was in the service sector (+265k) as the goods sectors added 52k. The gain on the goods side was roughly evenly split between manufacturing and construction.

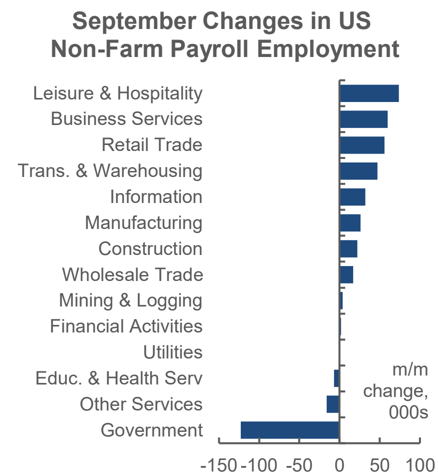
On the services side, breadth was decent. The strongest sector was trade and transport (+120k) including retail trade (+56k). Leisure and hospitality (+74k) also added jobs but the past couple of months have this this category that includes high contact services slow its pace of higher compared to the prior monthly pace that was in the hundreds of thousands. That's to be expected to a point given reopening effects. Also note the other sectors that posted gains in chart 3 with only a handful of private sectors shedding small numbers of jobs.

Aggregate hours worked were up by 0.8% m/m which strongly restores the trend toward gains that was briefly interrupted in August. Hours worked are growing at a slower but still healthy pace in Q4 after the stronger rates of growth over prior quarters (chart 4).

There were modest and not terribly unexpected positive revisions. Another 169k jobs were added to the tallies over the prior two months with 131k added to August. Revisions at abrupt turning points are not uncommon.

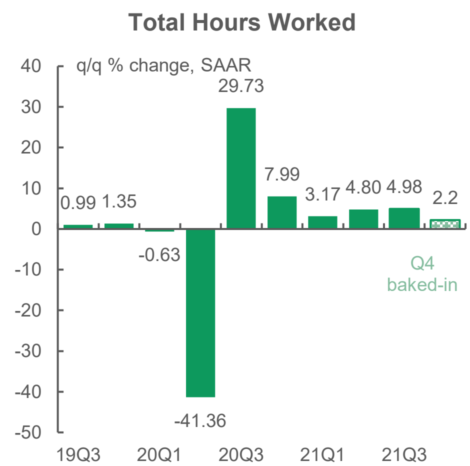
Going forward, we'll continue to pay close attention to the Household Pulse survey produced by the Census Bureau. Its magnitudes of adjustment don't align well with nonfarm, but it gets the general direction right which is why Scotia's estimate went materially low than consensus. For a reminder of the measures to monitor go to the preview (here).

Chart 3



Sources: Scotiabank Economics, US BLS.

Chart 4



Sources: Scotiabank Economics, StatsCan.