

US Jobs, ISM Keep The Fed On Track

- US jobs reports send conflicting signals
- The US services sector rapidly accelerated
- The Fed is likely to stay on track toward accelerating its tapering

US nonfarm payrolls m/m 000s // unemployment rate % // wage growth y/y

%, SA, November:

Actual: 210 / 4.2 / 4.8

Scotia: 450 / 4.4 / 4.9

Consensus: 550 / 4.5 / 5.0

Prior: 546 / 4.8 / 4.8 (revised from 531 / 4.6 / 4.9)

Two measures of US job growth diverged from one another and caused mixed effects on overall assessments of the health of the job market. Nonfarm payrolls disappointed at +210k with minimal revisions (+82k) such that the combined total fell meaningfully below expectations even after accounting for statistical confidence bands.

The companion household survey was up by 1.14 million and that's much larger than anything that typical statistical noise can dismiss even though the noise factor is higher than it is for payrolls. It's possible that the net effect signals robust employment gains off-payrolls and slanted toward smaller businesses. It's also possible there may be revisions to one or both measures in subsequent reports. Quality of jobs data in general diminished our ability to read developments given the suspension of the Census Bureau's Household Pulse Survey as it undergoes methodological changes.

The unemployment rate fell to 4.2% from 4.6% because it is derived from the household survey where the 1.14 million job gain almost doubled the 594k rise in the size of the labour force (chart 1).

The private sector (+235k) accounted for all of the payroll gain as government shed 25k jobs all in the state and local sector. Public sector jobs have fallen for four straight months and all at the state/local level.

Chart 2 shows the breakdown of the change in jobs by sector. Goods sectors added 60k while services added 175k. Within goods, the gain was split between construction and manufacturing. Within services, the gain had relatively modest breadth.

The US is now just 3.9 million jobs away from February 2020 levels according to payrolls, and 3.6 million according to the household survey. See chart 3. Chart 4 shows the sector breakdown.

Wage growth was stable at 4.8% y/y as wages were up 0.3% m/m. The annualized month-over-month wage increase slowed along a somewhat volatile trend (chart 5).

Hours worked were up 0.5% m/m and are tracking a gain of 4.8% q/q annualized in Q4 (chart 6). Given that GDP is an identity defined as hours times labour

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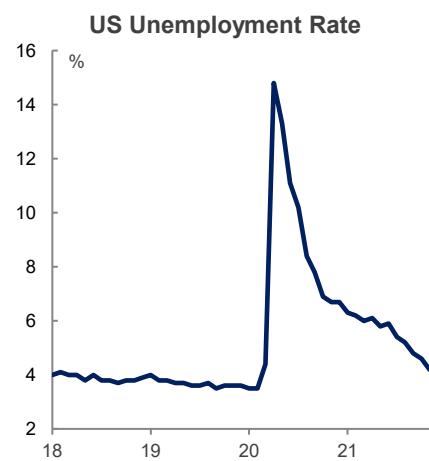
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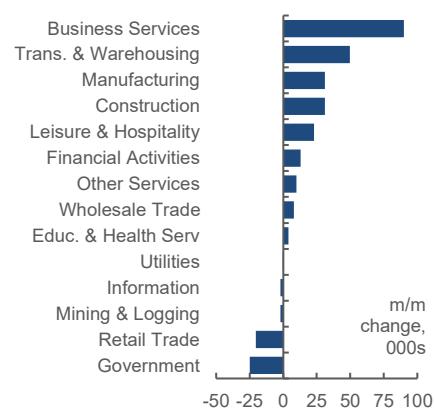
Chart 1



Sources: Scotiabank Economics, BLS.

Chart 2

November Changes in US Non-Farm Payroll Employment



Sources: Scotiabank Economics, US BLS.

productivity this is a very strong pace of growth.

ISM-services surprised higher on the headline reading of 69.1 (66.7 prior). That is the highest and hottest reading on record which signals rapid growth in the services sector. The employment subindex would not have helped forecast the deceleration in nonfarm payrolls since it soared by almost five full points to 56.5. Maybe that supports the household survey and/or revisions to nonfarm. Prices paid continue to rise at a very rapid pace and so do new orders as both subindices did not meaningfully change between October and November.

Overall these readings continue to point to rapid growth in GDP, continued progress toward the Fed's full employment mandate but with mixed signals between the surveys, and further wage gains. They probably won't influence the tone of the discussion at the upcoming FOMC meeting the week after next as Chair Powell has probably locked in an accelerated pace of tapering in no small part driven by inflationary concerns.

Chart 3

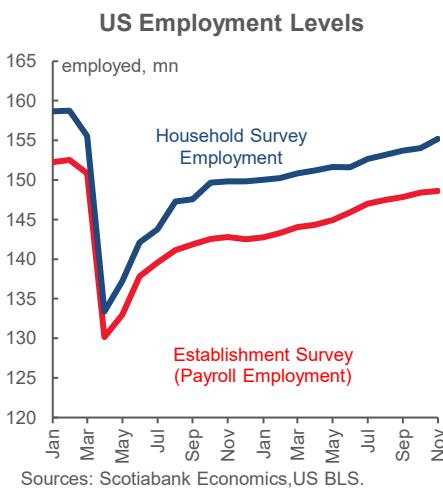


Chart 4

US Employment Recovery to Pre-Pandemic Levels

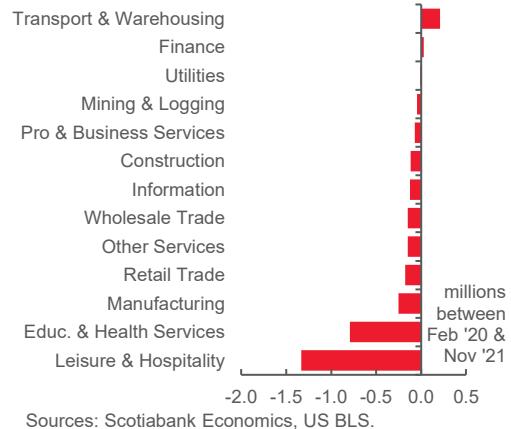


Chart 5

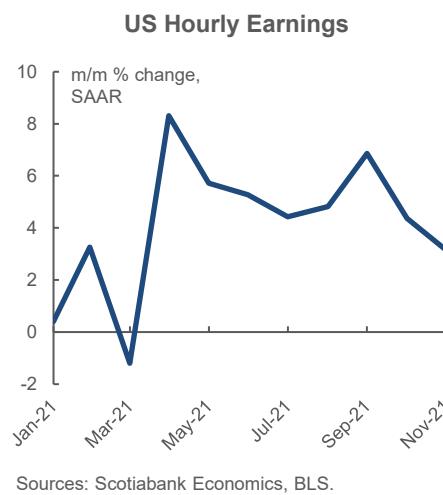
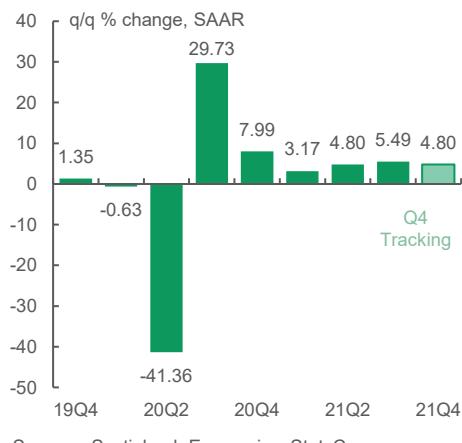


Chart 6

Total Hours Worked



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