US Payrolls Disappointment Cancelled by Stronger Wages

- **Private payrolls disappointed alongside negative revisions...**
- **...but wage growth has accelerated...**
- **...leaving markets to continue pricing a Fed hike on July 26th**

Contributors

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Nonfarm payrolls, m/m 000s // UR % // wages m/m %, SA, June:
Actual: 209 / 3.6 / 0.4
Scotia: 275 / 3.6 / 0.3
Consensus: 230 / 3.6 / 0.3
Prior: 306 / 3.7 / 0.4 (revised from 339 / 3.7 / 0.3)

US nonfarm payrolls disappointed lofty expectations that were set on the heels of a round of bullish readings on the state of the US job market and particularly through yesterday's readings (ADP, layoffs, ISM-services employment, claims). The 209k gain combined with 110k of negative revisions to the prior two months that were mostly skewed toward April offered a soft overall tone to the pace of job creation. That's particularly true in terms of private payrolls that were only up by 149k. If not for government hiring, nonfarm would have been even weaker. Furthermore, the companion household survey was also on the somewhat soft side at +273k. The overall set of readings on the state of the US job market that we have received over the past couple of days is among the most divided and conflicting in recent memory.

What offset this in part is that wage growth picked up a touch to 0.4% m/m in June and with the prior month's gain of 0.3% itself revised up a tick to 0.4%. That translates into trend wage growth at a fairly powerful rate averaging 4.7% m/m SAAR over the past three months (chart 1). This recent trend is cautiously positioned as higher than what it was earlier in the year, albeit that we're dealing with volatile data.

Chart 2 shows the break down of the change in nonfarm employment by sector. Service employment was up by 120k with goods adding 29k. Within goods, the gain was mainly in construction (+23k) with manufacturing up 7k. Within services, education and health led the way with a gain of 73k followed by government that was up 60k entirely at the state and local level. Leisure and hospitality added 21k.

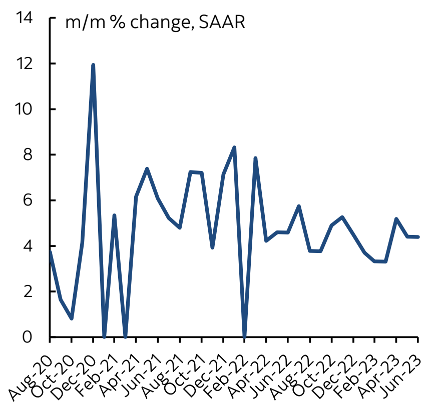
Hours worked were up by 0.4% m/m for the biggest gain since January and may have substituted for more payroll positions. Hours worked barely grew in Q2 overall (+0.2% q/q SAAR) which is a weak signal for expected GDP growth given GDP is an identity defined as hours worked times labour productivity (chart 3). Q3 has about 1% q/q SAAR growth in hours worked baked in so far. That may either go up or down as Q3 data arrives.

Markets continue to price a Fed hike on July 26th and only about half of another which continues to mildly haircut the FOMC's dot plot.

The next catalyst will be Tuesday's CPI that I expect to land at 0.3% m/m on headline and core and remain supportive of a tightening bias.

Chart 1

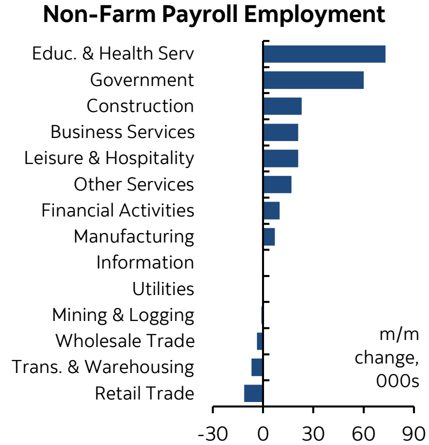
US Hourly Earnings



Sources: Scotiabank Economics, BLS.

Chart 2

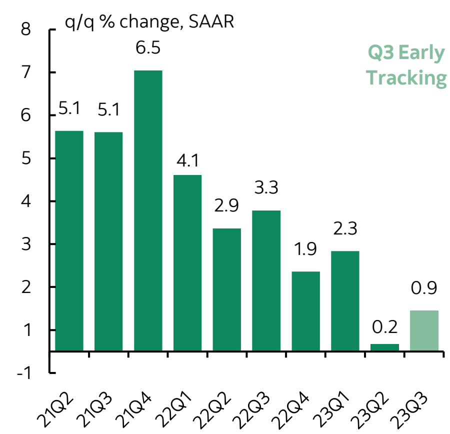
June Changes in US Non-Farm Payroll Employment



Sources: Scotiabank Economics, US BLS.

Chart 3

US Total Hours Worked



Sources: Scotiabank Economics, BLS.