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GLOBAL ECONOMICS

SCOTIA FLASH

October 6, 2023

Treasuries Shouldn't Be Ignoring U.S. Wages

- **Nonfarm payrolls doubled consensus expectations with strong revisions...**
- **...but breadth was soft...**
- **...and the inflation soft patch is now accompanied by a soft patch in wages**
- **Higher Treasury yields may be reading the figures differently than the FOMC**

Contributors

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Nonfarm payrolls, m/m 000s / UR (%), SA, September:
Actual: 336 / 3.8
Scotia: 175 / 3.7
Consensus: 170 / 3.7
Prior: 227 / 3.8 (revised from 187 / 3.8)

Thanks for the tip Mr. President. Oh relax, not the kind of formal tip that lands folks in hot water, but the intimated one. Announcing last evening that he would host a press conference on jobs at 11:30amET today as flagged to our clients was about as clear a signal as to be expected that this would be a strong headline reading worth pumping.

Strong indeed. US payrolls were up by 336,000 jobs in September. That humbled everyone in consensus and all the folks submitting shadow estimates. It gets better, as there were 119k additional jobs added through revisions with about 40k of those in August and the bulk in July. That sub-200 soft patch? Yeah, that was only in June (+105k) before 236k in July, 227k in August and now 336k in September.

Expect Biden to do some rather boastful fist pumping. Expect the opponents to point to some of the details as follows. My recommendation? Walk down the middle. The spike in Treasury yields should be doing likewise by emphasizing the following points.

OK, BUT NOT GREAT BREADTH

Chart 1 shows the breakdown by sector. The breadth wasn't great as three sectors dominated, but that's kind of quibbling. Private sector payrolls were up by 263k as government added 73k almost entirely at the state and local level.

Within the private sector, goods producing sectors added 29k and services dominated with a gain of 234k. Within goods, there were small gains in construction (11k) and manufacturing (17k). Within services, most of the gain was in leisure/hospitality (+96k) and education and health (70k). Trade and transport added 45k with retailers accounting for just under half of that (+20k).

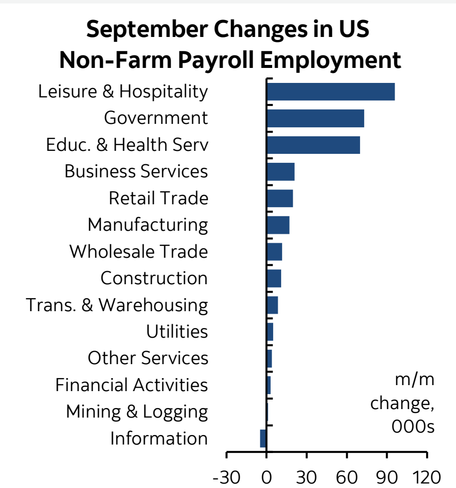
WAGE GROWTH CONTINUES TO COOL

That said, what the FOMC may focus upon more than jobs is the fact that average hourly earnings have hit a new soft patch in Goldilocks fashion. After gains of 0.4% m/m SA in each of June and July, we now have monthly gains of just 0.2% m/m SA in August and September (chart 2). That's a marked distinction from, say, the experience north of the border where wages are ripping.

MODEST GROWTH IN HOURS WORKED

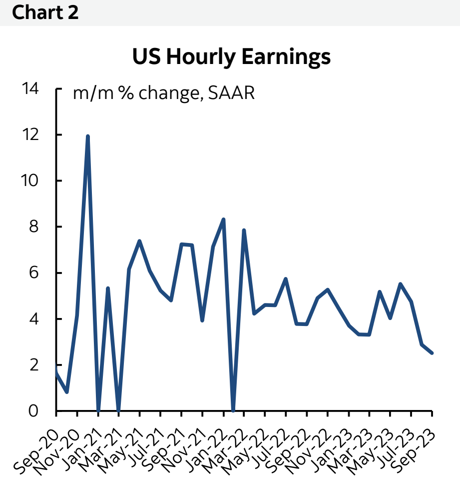
Hours worked support GDP growth (chart 3), but hint at a decelerating trend into Q4.

Chart 1



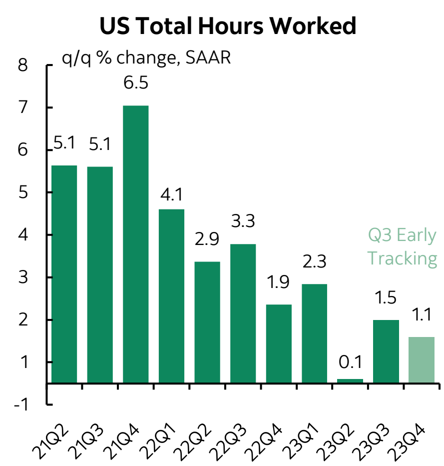
Sources: Scotiabank Economics, US BLS.

Chart 2



Sources: Scotiabank Economics, BLS.

Chart 3



Sources: Scotiabank Economics, BLS.