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# Revisions Save US Payrolls Held Back By Seasonal Adjustments and Weather

**Contributors**

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- **Job creation was stronger than expected net of revisions…**
- **…as January's miss was offset by upward revisions**
- **The weakest January SA factor ever held back an explosive gain**
- **Weather-adjusted payrolls beat, may signal pent-up hiring**
- **Markets see the Fed on hold until at least summer**

On net, US job growth beat expectations including the effects of positive revisions and would have been stronger yet had it not been for quirky seasonal adjustments.

### Markets Don't Expect a Full Cut Until September

Markets reacted by pushing up the two-year Treasury yield by 5bps, the ten-year by about 7bps, and tamping down any prospect of near-term easing by the Federal Reserve. Fed fund futures are pricing nothing for March, only about a one-in-four chance at a May cut, a little over half a cut in June, and a full cut only by the September meeting. The S&P fell on the reduced Fed bets.

### Revisions Pushed Job Growth Higher

Nonfarm payrolls were up by 143k in January, falling short of consensus and my estimate.

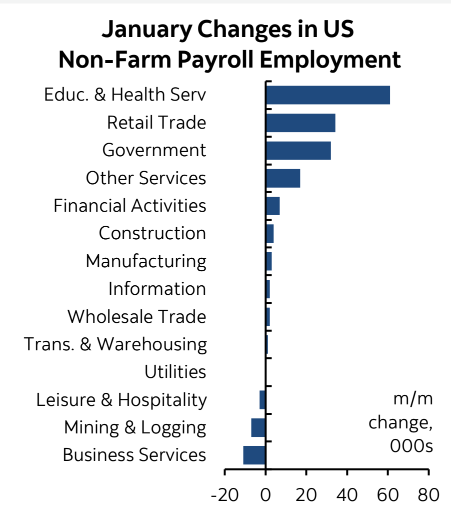
That was because the jumping off point from December was revised higher as my warning against being overly confident toward the direction and magnitude of complex revisions proved to be appropriate. December's gain is now clocking in at 307k, up from 256k, and November was also revised up by 49k for a net two-month upward revision of 100k.

Revisions this time were incredibly complex and included the second attempt at annual benchmarking revisions to March 2024, quarterly revisions to the birth-death model estimates, and regular two-month rolling revisions as more data comes in. The birth-death model shaved 105,000 off of the estimated gain in seasonally unadjusted payrolls in January after shaving 46k in December (here). That dog's breakfast of revisions is often humbling but welcome this time as jobs went up.

### Decent Breadth—But Vulnerabilities

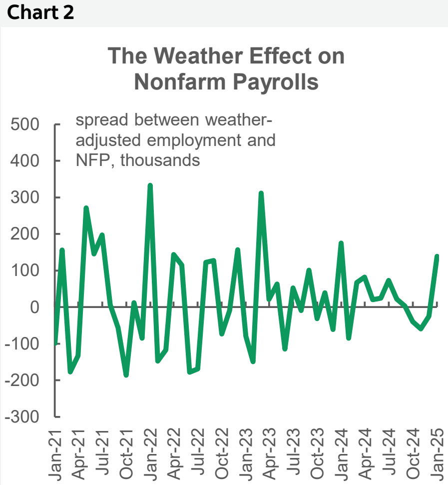
Chart 1 shows that breadth was ok, but not great. It also shows the vulnerabilities going forward as the Trump administration slaughters the Education Department.

Chart 1



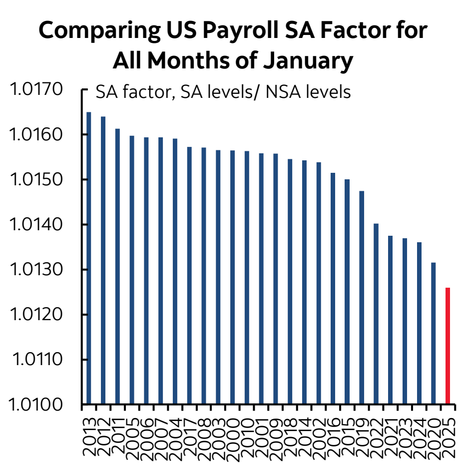

Sources: Scotiabank Economics, US BLS.

Chart 2



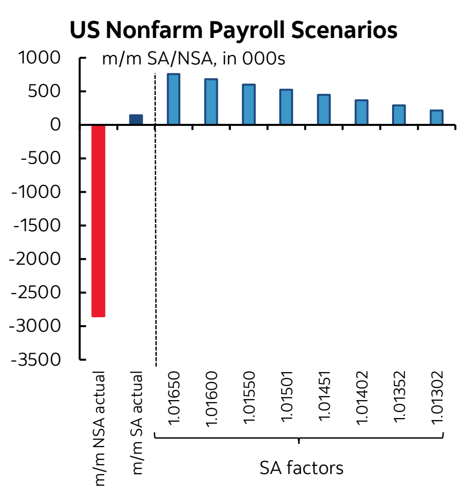

Sources: Scotiabank Economics, Bloomberg.

Chart 3




Sources: Scotiabank Economics, BLS.

Chart 4




Sources: Scotiabank Economics.

**Look Through Harsh Weather**

Chart 2 shows the San Francisco Fed's estimate of the impact of harsh weather that they figure held back what would have otherwise been an estimate payroll gain toward 280k.

**Distorted Seasonal Adjustments Held Back Job Growth**

As chart 3 shows, the seasonal adjustment factor for January was the lowest ever for like months of January. All of the weakest January SA factors in history have been in the pandemic era. This reflects the recency bias to how they are calculated coming out of all of the distortions introduced by pandemic era openings and closings and policy announcements.

Chart 4 is an attempt at offering different scenarios by taking the same seasonally unadjusted change in jobs that is normally a decline in January due to post-holiday and weather effects, and applying different SA factors within the range of past experiences for months of January. The monthly nonfarm payroll gain at any other SA factor would have been anywhere between 211k and three-quarters of a million jobs created!

**Weak Hours Worked Require Productivity Surge to Drive GDP Growth**

Hours worked suffered by posting a –0.2% m/m drop—the second one in a row. That leaves tracking at –0.8% q/q SAAR for Q1 after 1.6% in Q4 (chart 5). To get strong GDP growth, the US economy must register either a pick-up in hours and/or strong productivity growth since GDP is hours times labour productivity.

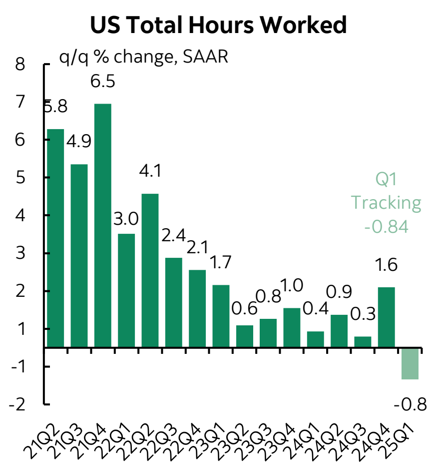
**A Lower Unemployment Rate Was Driven by a Wonky Household Survey**

The unemployment rate fell a tick to 4% (chart 6). It's derived from the companion household survey that spat out wild numbers including a 2.23 million gain in employment that eclipsed a 2.2 million gain in the labour force.

**Wage Growth Surged**

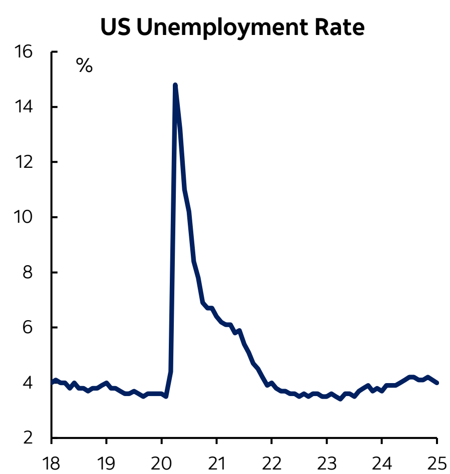
Wage growth surged by 5.9% m/m SAAR, lifting the y/y rate to 4.1% with the prior month revised up two-tenths from 3.9%.

**Chart 5**



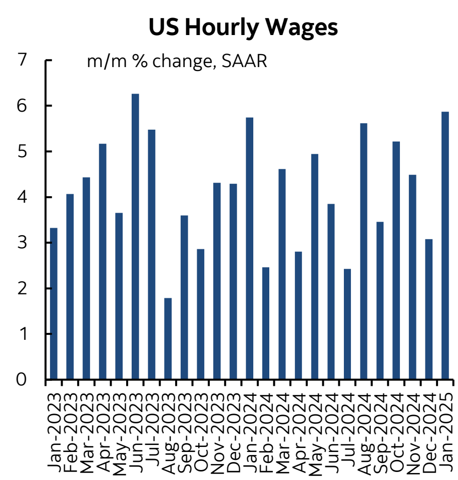

Sources: Scotiabank Economics, BLS.

**Chart 6**




Sources: Scotiabank Economics, BLS.

**Chart 7**




Sources: Scotiabank Economics, BLS.

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