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GLOBAL ECONOMICS

SCOTIA FLASH

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Nonfarm Validates December Hike — Cue Inflation

- **Nonfarm payrolls posted a solid gain in line with our above-consensus estimate**
- **Gains were driven by health, professional and AI-related categories**
- **Wage growth has been accelerating**
- **Hours worked support solid GDP growth**
- **Persistent under sampling will continue to feed high revision risk**
- **The FOMC is focused on inflation, but a solid job market adds to the hawkish case**

Nonfarm payrolls m/m 000s / UR %, October, SA:
Actual: 165 / 4.1
Scotia: 100 / 4.2
Consensus: 70 / 4.2
Prior: 60 / 4.2 (revised from 29 / 4.2)
Two-month payroll revision: +84k

The US economy broadly met expectations for a solid report and my above-consensus estimate. 165k jobs were created with solid details including more upward revisions that will keep the heat on the Federal Reserve to hike in December pending further information like next week's CPI and other developments. 19bps of a hike is now priced and this is driving higher short-term bond yields.

Two sectors drove much of the gain (chart 1). They were business services and education and health services but with the need to break that down finer.

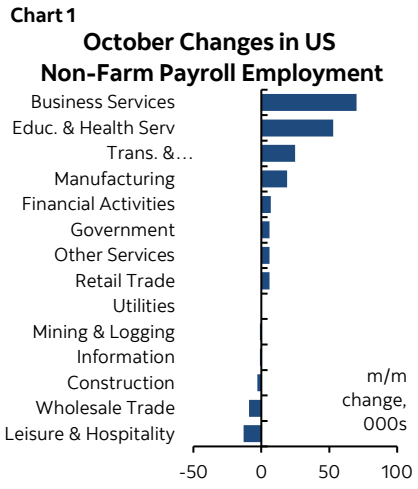
The health and social services sector added 55k jobs which is the fastest pace of hiring since April. 42,000 health care workers were hired including 16k at hospitals, 11k at home health care services and 5k at outpatient care centres.

In seasonally unadjusted terms this October saw elevated hiring of health professionals compared to prior years (charts 2, 3). The effect was tamped down by going relatively low on the health sector SA factor (chart 4).

I would expect more elevated health sector hiring to come given the earlier than normal start to the respiratory virus season.

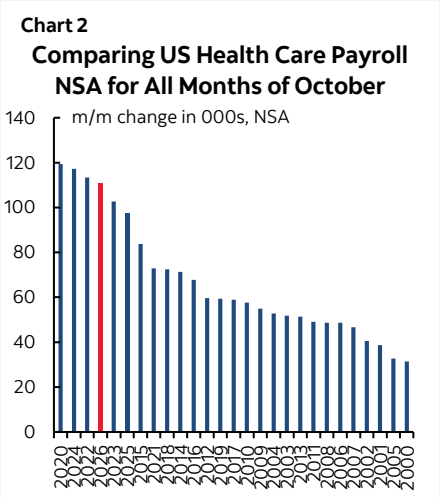
Where I was a bit surprised was in not seeing clear evidence of a weather effect given how unusually mild it was been across much of N.A. this Fall. Sectors like leisure and hospitality (-13k), retail (+6k), and construction (-3k) showed no real weather-effects. Perhaps that lies ahead with El Niño surging?

Chart 1



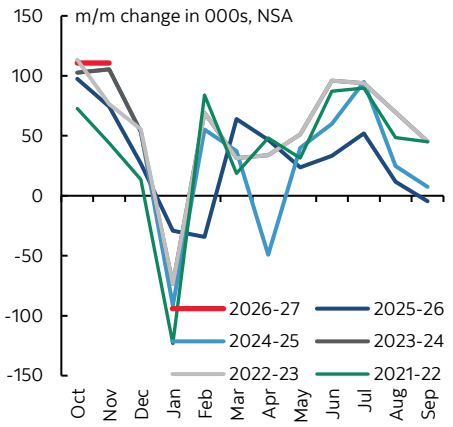
Sources: Scotiabank Economics, US BLS.

Chart 2



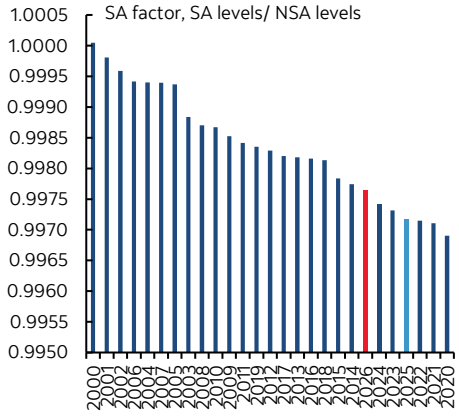
Sources: Scotiabank Economics, BLS.

Chart 3



Sources: Scotiabank Economics, BLS.

Chart 4



Sources: Scotiabank Economics, BLS.

Professional and business services were up strongly at 70k and hence more than anticipated which explains much of the overshoot relative to my overall nonfarm estimate. The gain was driven by professional, scientific and technical services (33k), admin support and waste management (28k) and company management (9k).

Wages are picking up with average hourly wages up 4.5% m/m SAAR in October after 3.2% in September (chart 5).

Hours worked posted a gain of 0.1% m/m in October and are tracking a 1.2% q/q SAAR expansion in Q4 which is similar to the prior 1.3% rise (chart 6).

The unemployment rate dipped a tick to 4.1% because the companion household survey registered a job gain of 463k that exceeded the expansion of the labour force at 421k.

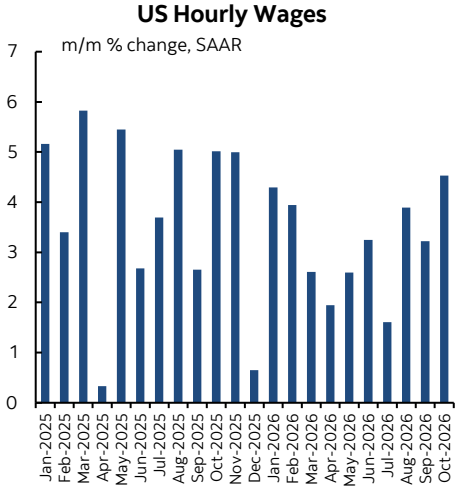
Revisions remain high with 84k extra jobs found in the prior two months (chart 7). Under sampling on first pass will drive further revisions the next time (chart 8).

Charts 9–10 show that the seasonally unadjusted gain was higher than usual and so was the SA factor.

Chart 11 shows private sector jobs outside of health care are doing rather well.

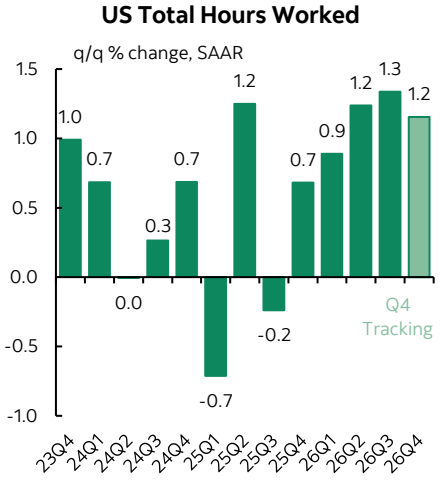
Charts 12-14 break out some sectors.

Chart 5



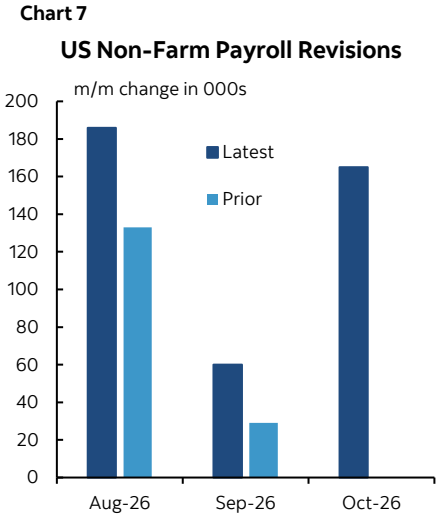
Sources: Scotiabank Economics, BLS.

Chart 6



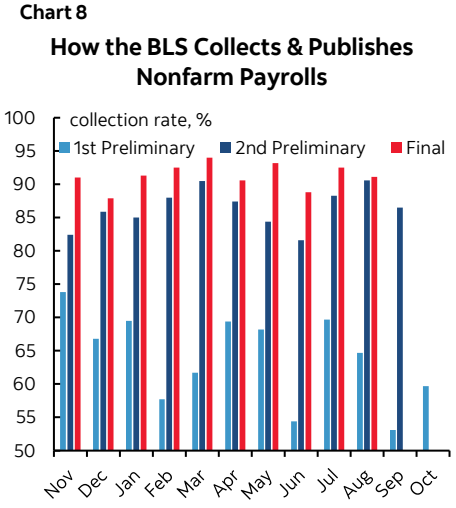
Sources: Scotiabank Economics, BLS.

Chart 7



Sources: Scotiabank Economics, BLS.

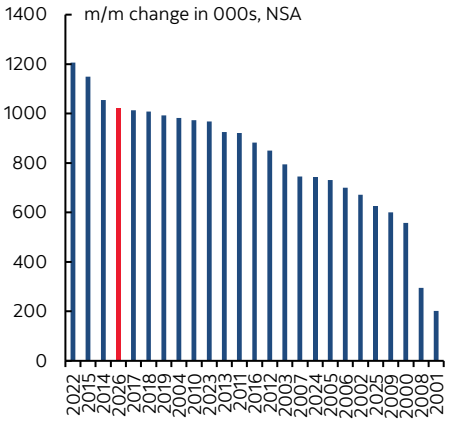
Chart 8



Sources: Scotiabank Economics, BLS.

Chart 9

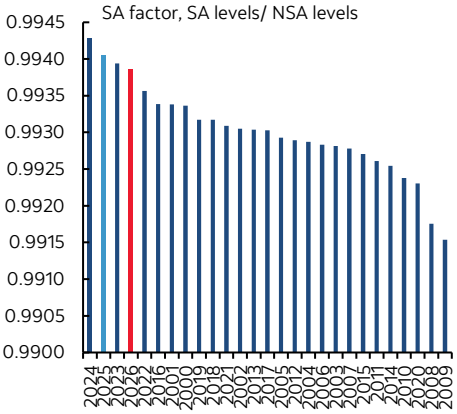
Comparing US Payroll NSA for All Months of October



Sources: Scotiabank Economics, BLS.

Chart 10

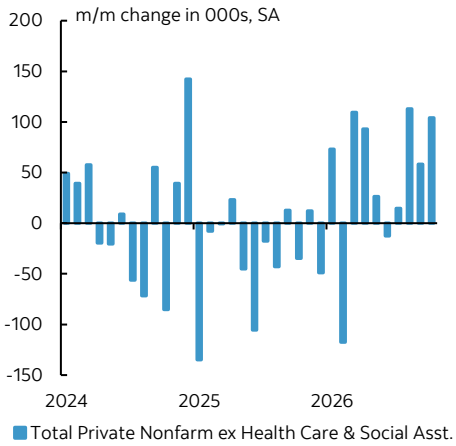
Comparing US Payroll SA Factor for All Months of October



Sources: Scotiabank Economics, BLS.

Chart 11

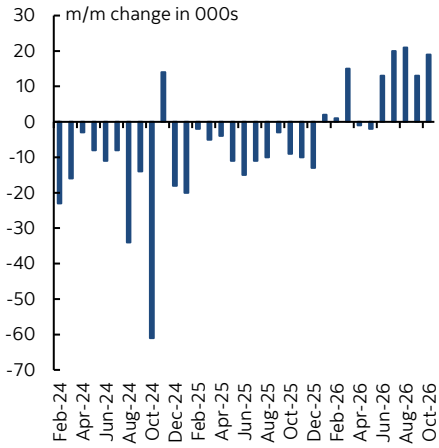
US Private Sector Jobs ex Health Care



Sources: Scotiabank Economics, BLS.

Chart 12

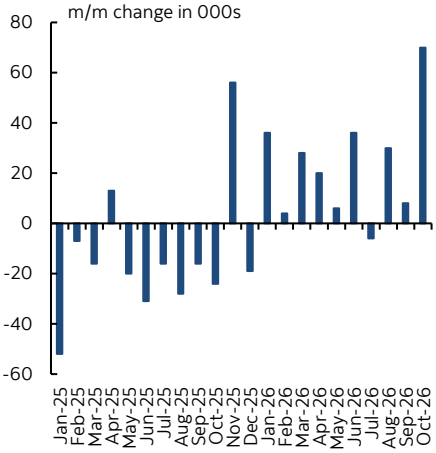
US Manufacturing Jobs



Sources: Scotiabank Economics, BLS.

Chart 13

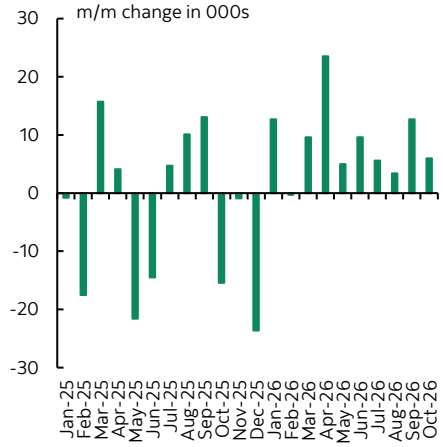
US Profession & Business Serv Jobs



Sources: Scotiabank Economics, BLS.

Chart 14

US Jobs in Retail Trade



Sources: Scotiabank Economics, BLS.

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