February 7, 2020

US Jobs and Wages Beat Consensus, Yet Markets Re-Focus On Virus Fears

- **Nonfarm payrolls & wages beat consensus, matching Scotia's estimates**
- **ADP's record continues to shine when it's an outlier move**
- **Details were broadly constructive**
- **This was a good week for US macro reports…**
- **...that indicates resilience in the face of global headwinds**
- **Markets are suddenly re-emphasizing virus concerns over strong US data**
- **Powell will point to solid activity readings but weak inflation next week**

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), January:
Actual: 225 / 3.6 / 3.1
Scotia: 220 / 3.5 / 3.1
Consensus: 165 / 3.5 / 3.0
Prior: 147 / 3.5 / 3.0 (revised from: 145 / 3.5 / 2.9)

Job and wage growth beat consensus expectations and landed on Scotia's estimates. We're keeping our horse shoe shined for the next time! ADP continues to prove its usefulness when there are large outlier movements. Still, Treasuries only cheapened and stocks rallied for a nanosecond after the release before resuming a path toward lower yields and cheaper stocks. Go figure. All week, markets emphasized strong US data over coronavirus concerns. Now nonfarm and wages rip and suddenly markets rediscover coronavirus worries perhaps as they cover positions into the weekend but we'll see where it all ends.

225,000 jobs were added in January with 206k from private payrolls and 19k from public sector jobs. Within the public sector, the Federal Government added 12k.

Still, the spread between ADP's 291k print and private nonfarm payrolls at +206k was on the larger side of the distribution and landed in the 81–100k bucket on chart 1. We'll watch for revisions to both surveys to see if this gap changes.

The broad details were supportive. Revisions were not terribly material over recent months except wage growth was revised up to be a touch firmer.

Wage growth accelerated to 3.1% y/y and was revised up to 3% the prior month from the initially reported 2.9% estimate (chart 2). It's still the case that wage growth is off the 3.5% y/y peak in February, but now by a little less so.

The unemployment rate edged higher to 3.6% because the sister household survey saw a job loss of 89k and the civilian labour force expanded by 50k.

Hours worked were up 0.2% m/m following a 0.1% lift in December.

The goods sectors added 32k jobs entirely due to 44k more construction workers as manufacturing fell 12k. Chart 3 shows the breakdown by sector.

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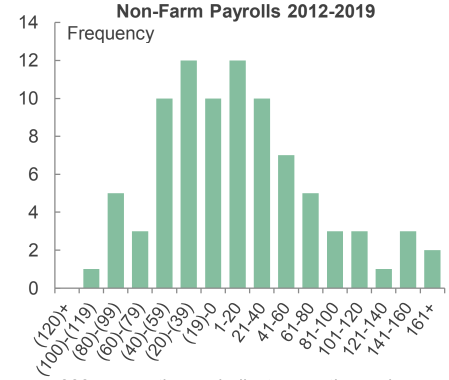
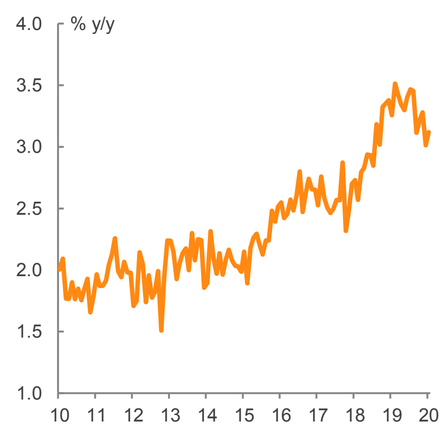
Differences Between Initial ADP And Private Non-Farm Payrolls 2012-2019



000s; parentheses indicate negative values; positive values indicate ADP overshoots

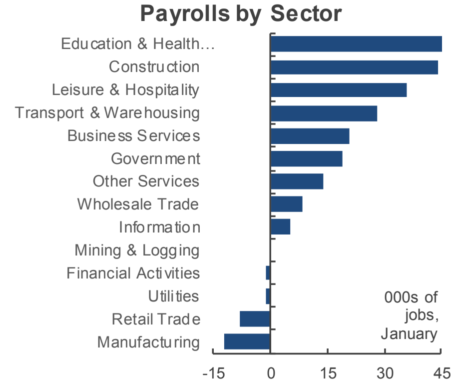
Sources: Scotiabank Economics, BLS, ADP.

Average Hourly Earnings



Sources: Scotiabank Economics, BLS.

Changes in Non-Farm Payrolls by Sector



Sources: Scotiabank Economics, US BLS.

The services sector added 174k with breadth. The education/health sector added 72k. Trade/transport added 27k but within that retail trade was weak (-8k). The leisure/hospitality sector added 36k. Finance was flat (-1k). Business services were up 21k but not because of temp held (-2k). IT was little changed.

Fed Chair Powell delivers his semi-annual testimony to Congress next week. He will emphasize strength in recent activity readings but also how inflation remains stubbornly below target. Headline and core PCE inflation are both at 1.6% y/y.

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