US Job Growth and Wages Accelerate

- **US jobs accelerated in line with our expectations**
- **Positive revisions made the prior soft patch a little stronger**
- **Composition was solid**
- **Wage growth is definitely accelerating beyond productivity gains**
- **Fed Chair Powell is probably overstating job slack…**
- **...given the different demographics around the pandemic shock**

US nonfarm payrolls, m/m 000s // UR (%), SA, October:
Actual: 531 / 4.6
Scotia: 675 / 4.6
Consensus: 450 / 4.7
Prior: 312 / 4.8 (revised from 194 / 4.8)

US employment growth sharply accelerated and the prior soft patch wasn't quite as soft as previously indicated. A net 766k jobs were created including positive revisions, of which 531k were created in October. That's broadly in line with our expectations in terms of how it all nets out with revisions that had pointed toward an acceleration based upon surveys indicating increased labour force attachment in October and it signals that the job market is doing well.

Stocks got a mild boost from the release while Treasuries were little impacted at the front-end and the long-end rallied by ~3bps.

Revisions added 235k jobs to the two prior months and were evenly split between September that was revised up 118k to a gain of 312k, and August that was revised up by 117k.

Quality was high partly due to substantial breadth (chart 1). The private sector added 604k jobs last month while government shed 73k almost entirely at the state and local levels.

By sector, every major category was up. Services added 496k jobs while goods added 108k. Jobs were up the most in leisure and hospitality (+164k). Next up was trade and transport (+104k) of which retail accounted for 35k. Business services added 100k jobs including 41k in temp help. Manufacturing added 60k and construction 44k.

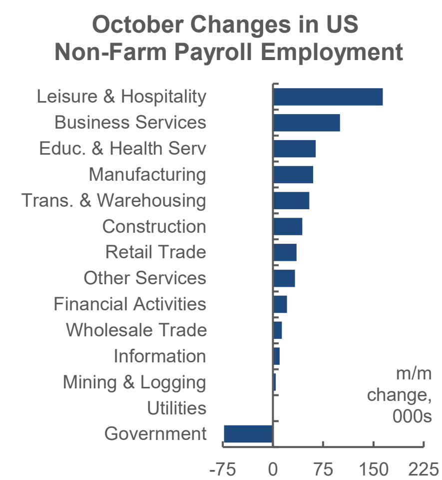
On net to date, the US is 4.2 million jobs shy of the February 2020 level. My opinion remains unchanged in that job markets are tighter than Fed Chair Powell thinks. Chart 2 shows that almost all of the still lost jobs remain concentrated in two sectors: leisure and hospitality plus education and health services.

US hours worked were up by 0.2% m/m in October. They are tracking a 3.3% q/q SAAR gain in Q4 based upon the Q3 average and October while assuming flat readings in November and December just to focus upon the effects of what we

CONTACTS

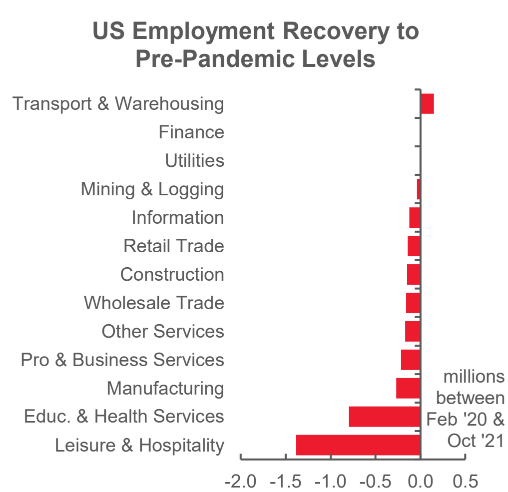
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, US BLS.

Chart 2



Sources: Scotiabank Economics, US BLS.

know so far. Hours were up by 5.4% q/q SAAR in Q3. See chart 3. Since GDP is an identity defined as hours worked times labour productivity this points to strong momentum in the US economy.

Wages are revealing in that regard. Average hourly wages were up another 0.5% m/m in October, or 5.6% at a m/m annualized rate. Chart 4. That continues to drive the wages trend higher into Q4. We want to see if that has legs beyond recent effects. That's likely why Chair Powell emphasized monitoring this carefully over 2022H1.

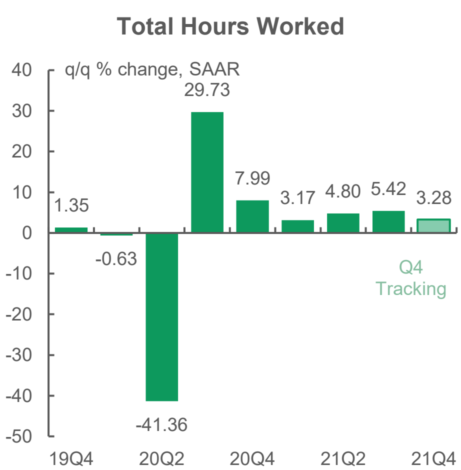
The split between full-time (+188k) and part-time (+171k) job creation was roughly even. Since February 2020, full-time jobs are down by 3.1 million and part-time jobs are down by 1.6 million which indicates there isn't much difference between full- and part-time employment in the recovery to date.

The unemployment rate fell to 4.6% from 4.8% because it is derived from the sister household survey that registered a gain of 359k jobs that more than tripled labour force re-entry (+104k). Chart 5. The U6 measure of unemployment and underemployment fell to 8.3% and is 1.3 ppts above pre-pandemic levels that were close to the historic low set in 2000.

The participation rate held unchanged at 61.6% and remains 2.8 ppts below the pre-pandemic level.

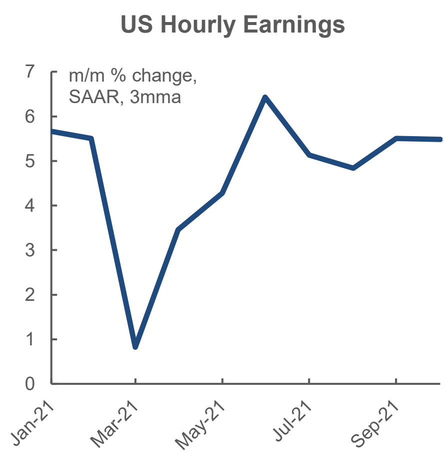
It's still hugely unclear to me whether the part rate will return to pre-pandemic levels. It had been declining for two decades prior to the pandemic. The pandemic hit boomers when many more of them were entering or close to retirement, unlike the aftermath of the GFC. The nature of work has changed and will continue change, but the demographics around this shock perhaps make it unwise to assume it will be like the aftermath to all prior shocks in terms of recapturing those who have exited. Added to this is whether it is wise to target pre-pandemic gauges of full employment that may have been overshooting.

Chart 3



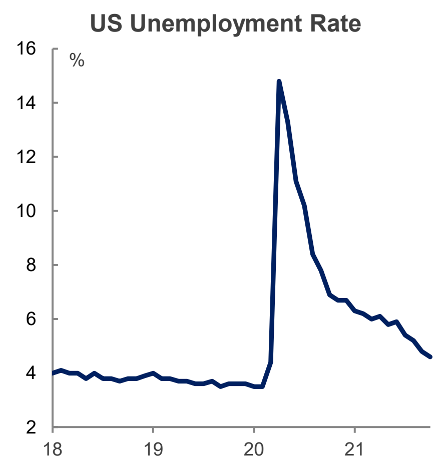
Sources: Scotiabank Economics, StatsCan.

Chart 4



Sources: Scotiabank Economics, BLS.

Chart 5



Sources: Scotiabank Economics, BLS.