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GLOBAL ECONOMICS

SCOTIA FLASH

June 7, 2024

Contributors

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

US Job Markets Remain Highly Resilient

- **Payrolls expanded at a brisk pace**
- **Wage growth accelerated**
- **Hours worked point to moderate US GDP growth**
- **Markets are forgetting that the FOMC will remain more focused upon inflation than jobs**

US nonfarm payrolls m/m 000s // UR %, SA, May:
Actual: 272 / 4.0
Scotia: 205 / 3.9
Consensus: 180 / 3.9
Prior: 165 / 3.9 (revised from 175 / 3.9)

This was a strong overall jobs report. Markets responded by driving the US 2-year yield up by about 12bps and 10s up 13bps. The dollar gained. Fed funds futures are pricing between 25–50bps of cuts by year-end.

The gain of 272k payroll positions was in the direction of the Scotia Economics' call for an above-consensus reading, but still within the bands of statistical noise given a +/-130k 90% confidence band around estimated changes in job growth.

Revisions to job growth were modest by only reducing the prior two months by 15k on net.

Sector breadth was high (chart 1)

Wage growth was firmer than expected at 0.4% m/m SA (consensus and Scotia 0.3%). That's 4.9% m/m SAAR and the three month moving average is 4.1% m/m SAAR (chart 2).

Hours worked were up by 2.1% m/m SAAR. They are tracking a rise of 1.6% q/q SAAR in Q2 from 1% in Q1 (chart 3). That signals moderate GDP growth in Q2 given that GDP is an identity defined as hours times productivity.

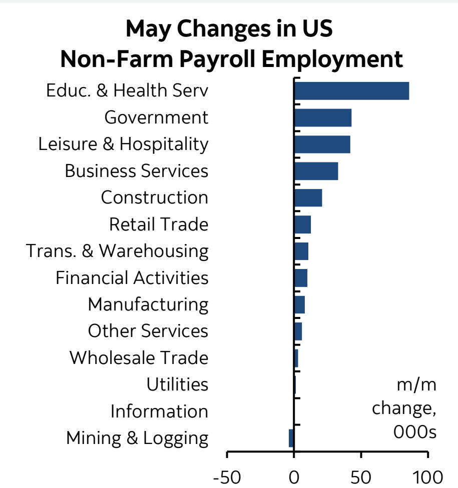
The unemployment rate edged up to 4%. It is derived from the companion household survey that showed a loss of 408k jobs while the labour force expanded by 250k.

I'm sure the usual concerns will surface in pointing to the spread between US payrolls that were up 272k and the household survey's 408k drop in jobs. Some cautions include that the household survey is much 'noisier' in terms of confidence bands around the estimates; maybe that household survey will jump higher next month on the same noise argument. The household survey also captures off-payroll firms and hence particularly small businesses. Nonfarm payrolls include multiple job holders by counting payroll jobs whereas the household survey counts bodies.

I think the market reaction is overdone in terms of implications for the Federal Reserve. The GDP signals are compatible with expecting softening GDP growth and the FOMC is much more focused upon inflation than the full employment part of its mandate. Next week's CPI print may matter more to them.

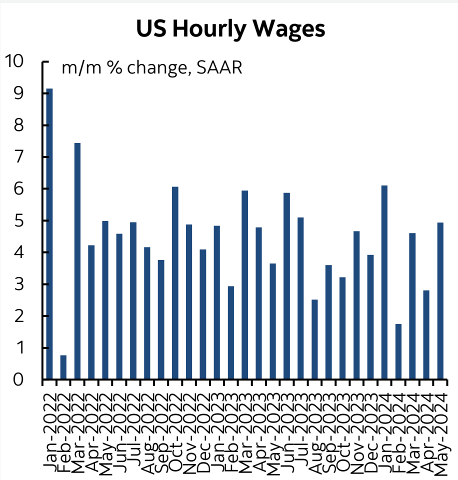
The FOMC is widely expected to leave policy unchanged next Wednesday. I would expect the consensus to lower the expected amount of rate cuts to –50bps this year while Chair Powell retains the same optimism that inflation will cool going forward. A September cut remains our base case for the first move this year.

Chart 1



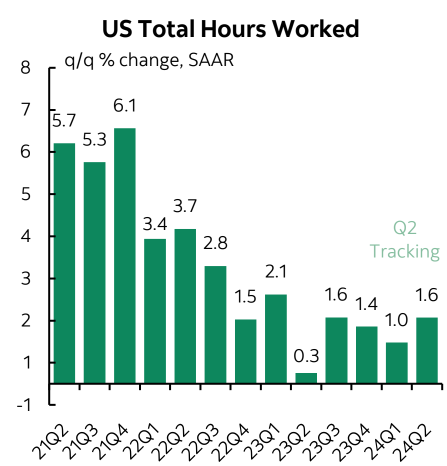
Sources: Scotiabank Economics, US BLS.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



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