Scotiabank
GLOBAL ECONOMICS

SCOTIA FLASH

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Why Markets Liked US Payrolls

Nonfarm payrolls, m/m 000s // UR %, June, SA:
Actual: 206 / 4.1
Scotia: 210 / 3.9
Consensus: 190 / 4.0
Prior: 218 / 4.0 (revised from 272 / 4.0)

Job growth cooled and the composition was soft. Broader details also softened. Treasury yields fell by about 7bps in 2s and 5bps in 10s while the USD broadly depreciated.

Markets continue to assign no chance at a cut later this month but have about 20bps pricing for the September meeting when we forecast a first cut. Markets added a few more basis points to cumulative cuts later this year into early next and are aligned with our forecast for 50bps of easing this year. The S&P is outperforming other global benchmarks.

206k jobs created in nonfarm payrolls is nothing to be overly negative about. The composition was soft, however, as it was led by government jobs (+70k m/m) almost entirely at the state and local levels, and the education and health sectors (chart 1). There was relatively little growth in other sectors.

Furthermore, the more volatile companion household survey registered a job gain of just 116k which was a tepid rebound from the prior month's decline of 408k. The household survey differs from nonfarm for several reasons including that it captures off-payroll employment, counts multiple job holders once, and has a much higher degree of random statistical noise. The unemployment rate ticked up to 4.1% as the labour force (+277k) grew faster than jobs.

The trend in job growth is off the peak, holding fairly steady for nonfarm but trending weaker in the much noisier household survey (chart 2).

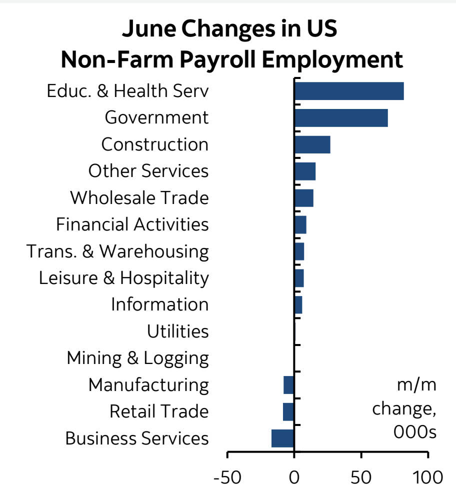
Also note that revisions were negative. They shaved 111k jobs off the prior two months with about a 50–50 split over the two months.

Wage growth remains solid at 0.3% m/m SA and 3.5% m/m SAAR, but it cooled a touch from the prior month's pace (chart 3).

Hours worked are tracking mild growth. They were only up by 1.5% q/q SAAR in Q2 which extends the string of 1-handled increases (chart 4). Since GDP is hours times labour productivity, the US needs productivity growth to drive strong growth but nowcasts for Q2 GDP growth point to a deceleration toward 1 1/2 % q/q SAAR after just 1.4% growth in Q1.

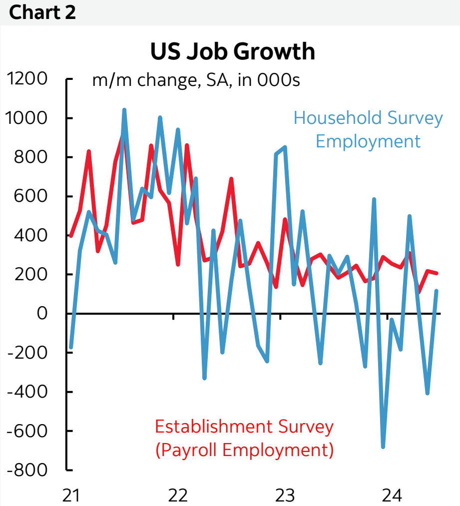
On their own, these numbers mean relatively little to the FOMC. They are clearly on hold until at least September and evaluating much further data between now and then.

Chart 1



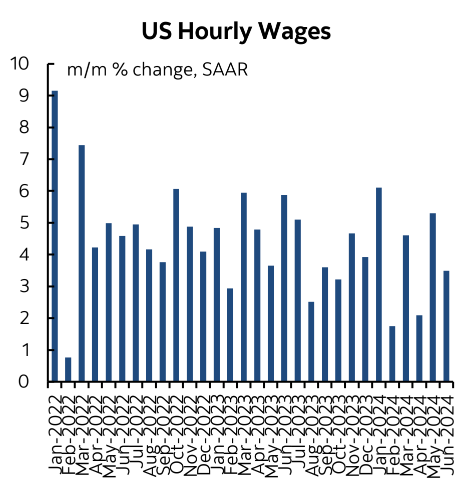
Sources: Scotiabank Economics, US BLS.

Chart 2



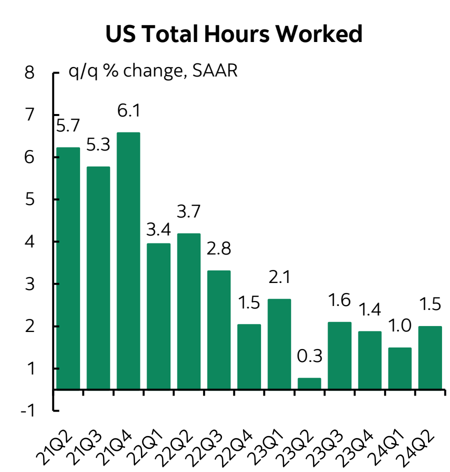
Sources: Scotiabank Economics, BLS.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, BLS.