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GLOBAL ECONOMICS

SCOTIA FLASH

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Strong US Job Growth Crushes Fed Easing

- **US adds another quarter million payroll jobs**
- **Unemployment rate dropped**
- **Wage growth was solid**
- **Hours worked support Q4 GDP tracking, baked in a running head start for Q1**
- **Markets reduced Fed pricing toward only one cut this year**

US nonfarm payrolls m/m 000s / UR %, SA, December:
Actual: 256 / 4.1
Scotia: 205 / 4.1
Consensus: 165 / 4.2
Prior: 212 / 4.2 (revised from 227 / 4.2)

US job growth powered forward and handily beat consensus expectations. A quarter million new payroll positions were created last month which was well above consensus. It was also above my estimate, but only four of us out of 75 were above 200k to begin with so I'm not sweating that too much. Most details were strong, with one fly in the ointment.

What's buzzing around this report in search of the bad smell is the fact that the seasonal adjustment factor was tied for the highest on record (chart 1). December normally applies a seasonal adjustment factor of just under 1.0 to compensate against seasonal hiring in the unadjusted data. The fact the SA factor was so high this time meant that seasonally unadjusted job growth was not tamped down as much as it would have otherwise been. Chart 2 shows what job growth would have been like at different SA factors used during other months of December in history. Job growth might have been solid nonetheless, or much poorer. Maybe they did the wrong thing with the SA factor, but the pattern coming out of the pandemic leads me to be cautious as written many times and to the point to which I don't trust them.

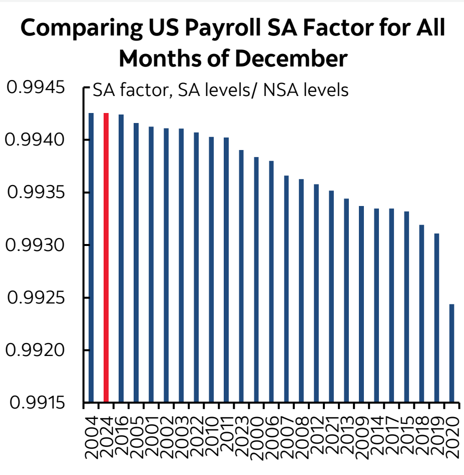
The sector breadth to the reported gain was decent (chart 3). It was all services (+231k) as goods slipped (-8k) led by -13k manufacturing. State/local governments added another 27k jobs. retail was smoking (+43k), so was leisure/hospitality (+43k), IT was up by +10k, financial services added +13k, wholesale/transport employment was +6k, and construction was +8k.

Wage growth landed at 0.3% m/m SA and 3.9% y/y (4% prior). Chart 4.

The unemployment rate moved lower to 4.1%, matching my deeply out of consensus call (chart 5). This happened because the household survey from which it is derived registered an employment gain of 478k that far outstripped the labour force rise of 243k. Furthermore, the household survey's reported decline in employment the prior month was revised to be a significantly lower drop. Ditto for the previously reported decline in the labour force in November.

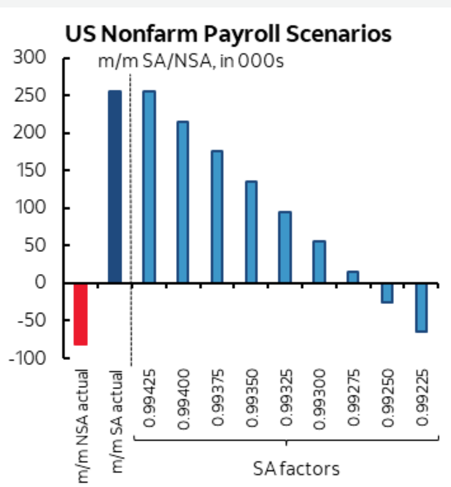
Hours worked were up by –0.16% m/m SA. That positions the rise in hours worked during Q4 over Q3 at 1.5% q/q SAAR. This should be supportive of 'nowcast' tracking of Q4 GDP

Chart 1



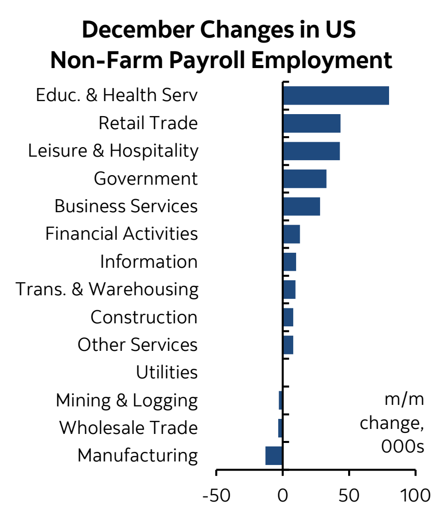
Sources: Scotiabank Economics, BLS.

Chart 2



Sources: Scotiabank Economics.

Chart 3



Sources: Scotiabank Economics, US BLS.

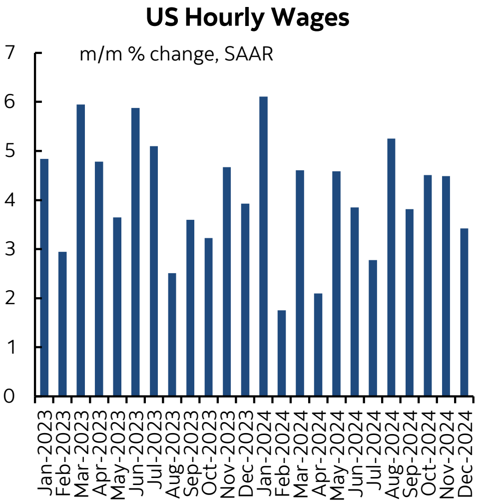
growth with a mild productivity assist. There is also a decent running head start baked into Q1 GDP through hours worked given the way the year-ended (chart 6).

Overall our Fed forecast is on track as the official house view for the bank. Skip January, only two 25bps cuts this year and not for a while, and lots of information to digest that I'm sure will drive plenty of forecast revisions if the first week of the crazy new year serves as any guide!!

The market reaction seemed sensible to me, for now, but stay tuned for bigger developments. The other smell hanging over this report is a dank, damp stale stench. For now, the two-year yield is up 10bps on the day in a bear flattener move with 10s up 6bps. The USD is gaining on all comers except the yen and only barely so against CAD after a robust Canadian jobs report. Stocks are retreating with the S&P down 1.8% thus far. All of which because markets have scaled back expectations for easing by the Federal Reserve to just one cut this year.

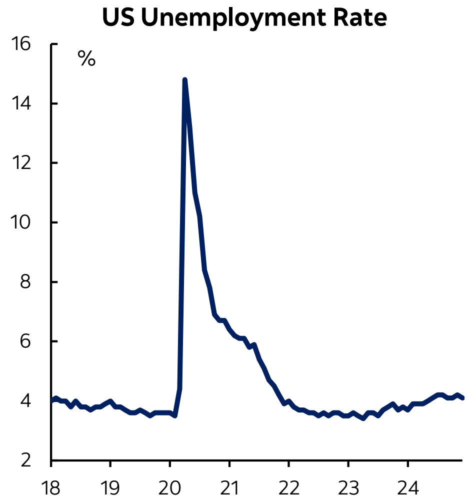
Next up? US CPI next week, then whatever Trump does from the 20th onward before the January 29th FOMC with more in my week ahead.

Chart 4



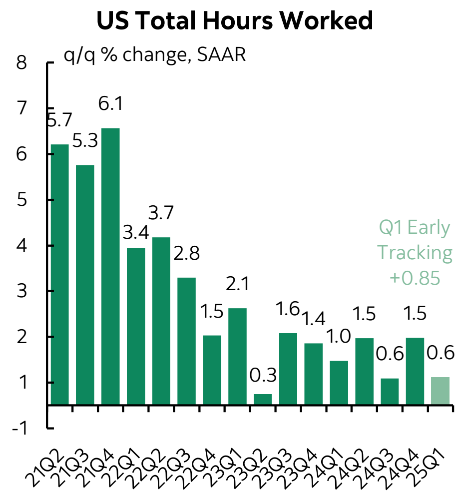
Sources: Scotiabank Economics, BLS.

Chart 5



Sources: Scotiabank Economics, BLS.

Chart 6



Sources: Scotiabank Economics, BLS.