June 1, 2018

US Nonfarm Gently Beats Across All Headlines

United States, Nonfarm Payrolls (000s) / Unemployment rate (%) / wages y/y (%), June:

Actual: 223 / 3.8 / 2.7

Scotia: 200 / 3.9 / 2.6

Consensus: 190 / 3.9 / 2.6

Prior: 159 / 3.9 / 2.6 (revised from: 164 / 3.9 / 2.6)

- **This is a solid overall set of numbers that marginally beat expectations for all of the headline variables from job growth to the unemployment rate and wage growth.** Short-term US Treasury yields spiked higher with the 2 year yield up 2bps post-release. The USD on a DXY basis initially appreciated a touch but has since shaken off the effects.

- **At the margin, however, this carries little to no consequence to the Fed.** A June hike is already baked in and the Fed's "symmetrical" approach to inflation targeting has already indicated in the minutes that the FOMC is willing to allow inflation to run a little hotter temporarily. It certainly didn't in yesterday's core PCE inflation print of 1.8% y/y with a downward revision to 1.8% the prior month from 1.9% initially. Therefore the near term gyrations in the wage and price complex should not impact the FOMC's perspectives nor should the jobs print given that the 90% confidence interval is the width of the continental US.

- **The unemployment rate fell but not exclusively for good reasons** as the participation rate declined a tick to 62.7% which indicates fewer people looking. The unemployment rate is derived from the sister companion household survey that registered faster job growth of 293k than the nonfarm payrolls report.

- **Nominal wage growth picked up a tick to 2.7% y/y.** It has been stuck within a volatile range of about 2.3% y/y to 2.8% since 2016 after a temporary acceleration in 2015. On a trend basis, there is no break-out in either direction so **treat a one-tenth up-tick as data noise for now.**

- **Real wage growth is still barely positive.** We need June's PCE inflation reading to update the chart below but we're likely to see higher PCE inflation that will offset the modest up-tick in wages and keep real wage growth very subdued for this point in the cycle in no small part due to soft growth in labour productivity that is running at just 1.3% y/y as of Q1.

- **Revisions were small** and added 15,000 jobs to the prior two months, mostly two months ago.

- **By sector, job growth was led by services again (+171k) but goods-producing sectors added 47k jobs** which roughly matches the prior month's pick-up. Within goods, jobs were up 25k in construction and 18k in manufacturing. Within services, the stand-outs were trade/transport (+53k) mostly through a 31k rise in retail trade hiring. Business services added 31k jobs and not through temp help (-8k). Education/health added 39k and the leisure and hospitality sectors added 21k. Only the Federal Government shed a small number of jobs (-3k) for the fourth consecutive month.

CONTACTS

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

Sources: Scotiabank Economics, Bloomberg.