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## TD Economics

### Data Release: U.S. job market fires on all cylinders in July with 255k jobs added to payrolls

- Payrolls expanded by 255k in July, grossly exceeding expectations for 180k. Revisions added an additional 18k to the tally with June up 292k (from 287k) and May up 24k (from 11k).
- By sector, private goods-producing services rose 16k, with gains in construction (+14k) and manufacturing (+9k), offsetting ongoing losses in mining and logging (-8k). Private services industries also grew a healthy 201k, while government payrolls added an additional 38k.
- The unemployment rate remained steady at 4.9%. Household survey employment rose 420k, but a was met with an equally strong 407k rise in the civilian labor force, as the participation rate ticked up to 62.8% from 62.7%.
- Average hourly wages rose a robust 0.3% on the month, and remained unchanged at 2.6% on a year-on-year basis.

### Key Implications

- Even as economic growth has been lackluster, the job market has remained sparkling bright. Job growth of 255k is more than double the level necessary to keep downward pressure on unemployment.
- A weak economy and strong labor market presents something of a challenge for the Federal Reserve. The combination suggests at least some of the factors behind slow economic growth are structural and won't be overcome by additional monetary stimulus. This adds to the conundrum for the Federal Reserve facing continued healthy household demand and a risk-filled global environment and lofty dollar.
- With some stability in the dollar, strong household demand should help to raise the prospects for profit growth, inciting businesses to invest in further capacity, especially in an environment of accelerating wage growth. At a minimum this implies that market expectations, which are currently not pricing in another rate hike until 2017 will have to move forward. The Fed will be patient, but will not ignore signs of progress in the labor market. The case for continued gradual increases in interest rates is stronger after today's report.

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