February 3, 2017

TD Economics

Data Release: Lots of jobs in January, but little pay

- Non-farm payrolls increased by 227k in January, or well above the 180k expected by the street. Revisions to the previous year indicated that 85k more jobs were added than previously reported, with large upward revisions to spring and summer hiring somewhat offset by downward revisions on the front and back end of the year.

- Private payrolls rose by 237k, more than 60k above consensus. Private services hiring was led by retail (+46k), professional & business services (+39k), health care (+32k) and financial services (+32k). Construction (+36k) had a great month, with manufacturing (+5k) and mining (+4k) also adding to the goods sector tally. Government sector (-10k) shed jobs for the third consecutive month.

- The unemployment rate ticked up by 0.1 percentage points to 4.8% as household employment pulled back despite some re-entry to the labor force. The influx of people back into the labor force has lifted the participation rate up by 0.2pp to 62.9% on the month – half a point above its low. Most broader measures of unemployment also rose on the increased labor force participation. The employment-ratio also rose by 0.2pp, matching its post-recession high.

- Average hourly earnings rose by 0.1% during the month, disappointing expectations, with the year-over-year wage growth decelerating from 2.8% to 2.5% in January.

- Average weekly hours were unchanged at 34.4.

Key Implications

- This report looks like a blockbuster one on many fronts. Last year's job gains were revised up, with the economy adding the most jobs in four months during January. Moreover, the breadth of hiring strength across industries particularly encouraging as far as the U.S. economic momentum is concerned. Notably, retail trade hiring was the highest in a year while financial services had the best month of hiring since the peak of the housing bubble in October 2005.

- The goods sector performance was also quite encouraging, with construction sector hiring picking up to near its fastest pace in a year despite anecdotal evidence of significant shortages of labor. The mining sector also continued to hire for the third month in a row after 25 months of declines, indicating that the sector is turning around. Manufacturing, whose strengthening remains the focus of the new administration's policies, also added jobs but employment in the sector still remains below last year's levels.

- The jobless rates rose, but they did so for a good reason as continued strength in the labor market appears to be bringing in more people off the sidelines to look for work. This is a welcome development that economists and policymakers have been anticipating for some time and should provide further arguments for the Fed doves to resist a faster pace of rate hikes. These arguments will be further strengthened by the weak wage gain this month, however we anticipate that much of this is related to the mix of hiring – with temporary and retail jobs accounting for more than a quarter of the total hiring.

- Ultimately, despite the strong headline we don't expect this report will nudge the Fed into a faster pace of wage hikes, with our baseline scenario anticipating two hikes this year, with the next one likely to come around the mid-year mark.

Michael Dolega, Senior Economist
416-983-0500

@TD_Economics