

US: STRONG JOB GROWTH AND DATA SHOULD ENCOURAGE FED TO CONSIDER MARCH HIKE

The January Employment Report was solid.

US nonfarm payrolls increased 227k in January, growing above its recent trend (nonfarm payroll growth averaged 148k in Q4), as the recent surge in sentiment appears to be feeding through to economic activity and hiring (see Chart 1). The unemployment rate ticked up 0.1pp to 4.8%, rising for the right reason – an increase in the labor force participation rate. On the flip side, average hourly earnings disappointed in January, growing by a slight 0.1% m/m, placing the yr/yr gain lower at 2.5%.

The labor force participation rate (LFPR) ticked up 0.2pp to 62.9%, remaining in its recent 62.6-63% range, but appears to be on a slight upward trend (see Chart 2). A continued pick up in the LFPR would mean that persons who have been on the sidelines of the labor market are feeling more confident about job-finding prospects.

The 2.5% yr/yr gain in average hourly earnings is a sharp deceleration from last month's 2.8% gain (see Chart 3). To be sure, wages grew strongly last January making for unfavorable comparisons in the yr/yr numbers – expect to see a rebound in yr/yr earnings next month due to this base effect. Looking ahead, Infrastructure spending and a spur in business investment from fiscal reform could increase demand for workers already in short demand and lead to an acceleration in wages, adding to inflationary expectations.

Aggregate hours worked increased by only 0.2% m/m in January. Together with the slight increase in average hourly earnings, this points to only small gains in disposable incomes in January. However, given that consumer confidence has improved and that consumers have shown a greater willingness to draw down on savings recently, private consumption should remain solid despite the likely small income gains last month.

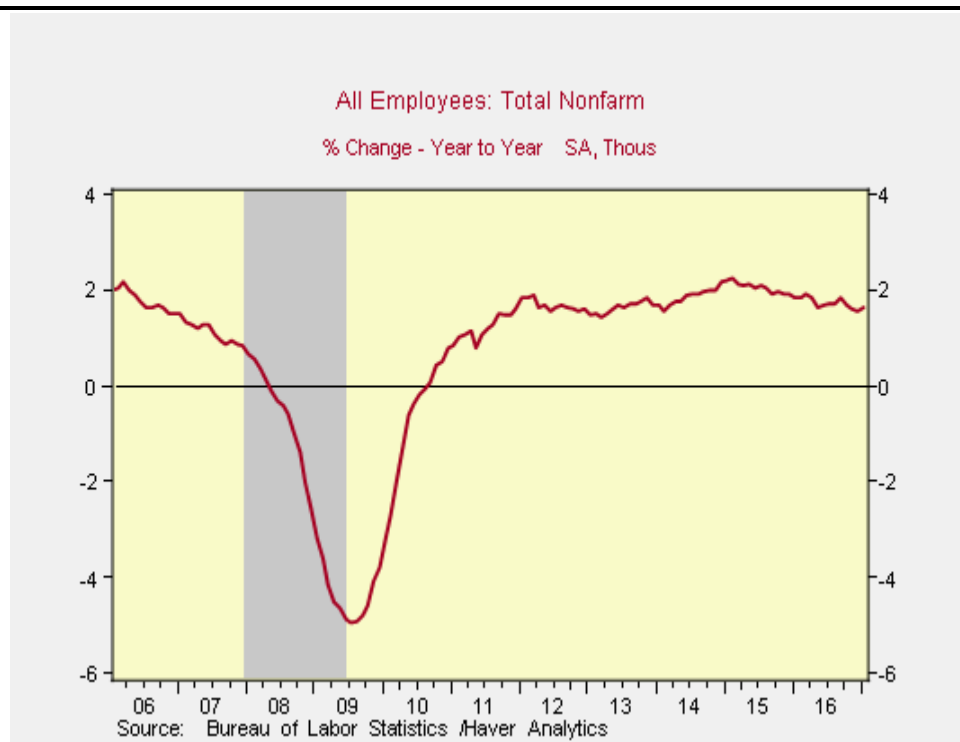
Hiring in the goods sector has regained momentum as the manufacturing and mining sectors are now adding jobs consistently, after shedding for some time (see Chart 4). Construction employment rose by 36k – the largest gain since last March – and is good news for the residential construction sector, which will probably be challenged by higher rates.

Elsewhere, retail sector hiring accelerated – a positive sign for January's retail sales, and the financial sector added 32k jobs, the most it has added in a single month since 2005 (see Chart 5).

Overall, this was a solid employment report and if the economic data remains robust, one would encourage the Fed to hike rates in March as it would give the Committee more flexibility to achieve its goals of three rate hikes this year and reduce the chances that it will fall behind the curve.

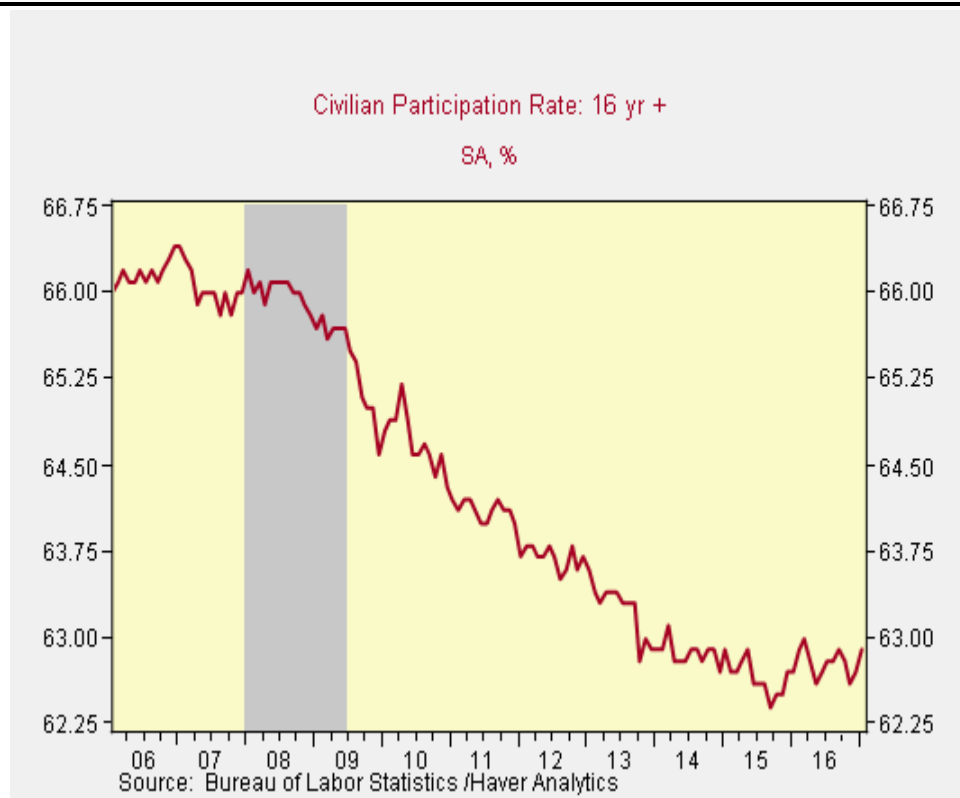
03 February 2017

Chart 1: Total nonfarm employment (yr/yr, %)



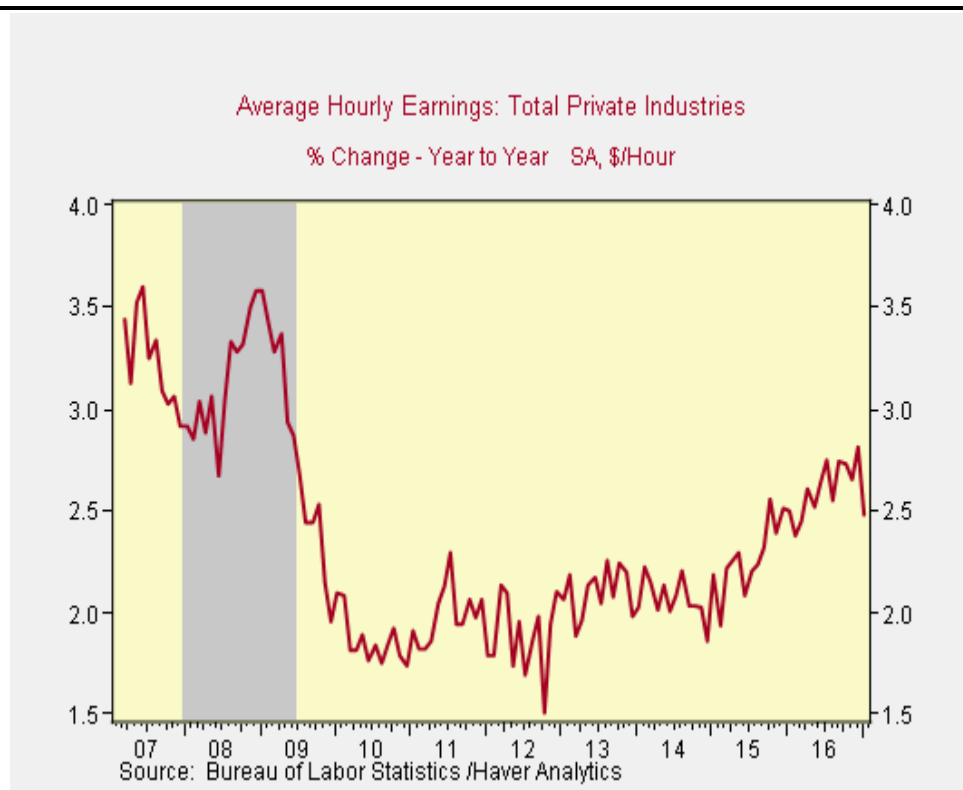
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 2: Civilian participation rate (%)



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 3: Average hourly earnings: total private industries (yr/yr, %)



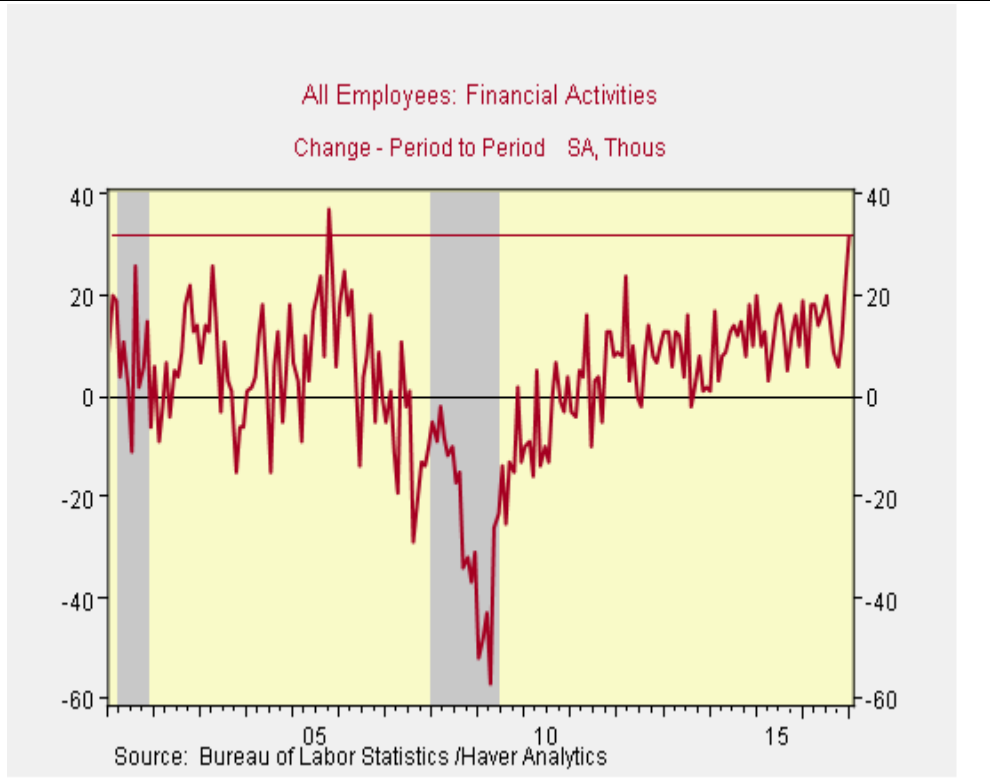
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Change in goods-producing employment



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 5: Change in financial activities employment



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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