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TD Economics

Data Release: No slowing the U.S. job machine

- Nonfarm payrolls rose by 292k in December, well ahead of expectations for 200k. Private sector hiring expanded by 275k, above the consensus call of 201k. For the year as whole, the economy added an average of 221k jobs per month, down from 260k in 2014, but still better than any other year other year since 1999.

- Revisions added to the good news, contributing an additional 50k to payrolls over the past two months. November's revised job growth was 252k (previously reported at 211k) and October's was 307k (previously 298k).

- The unemployment rate remained unchanged at 5.0%. Household survey employment rose a robust 485k in the month, slightly outpacing labor force growth of 466k. The labor force participation rate rose 0.1 percentage points to 62.6% of working age adults.

- Goods-producing employment rose a healthy 45k. Construction employment rose 45k and manufacturing added 8k, offsetting 8k losses in mining and logging, which shed jobs every month in 2015. Private services employment accelerated to 230k, while government kicked in another 17k.

- Average hourly earnings were flat in the month, but accelerated to 2.5% (from 2.3%) year-over-year.

Key Implications

- Wow, what a report. The consistent strength in job growth makes up for the apparent weakness in other economic data. It is the main reason the Federal Reserve has begun tightening policy and will continue to nudge rates up over the course of this year. The Fed has not given up on the inverse relationship between inflation and economic slack (even if it is cautious about its magnitude). As long as job growth remains above trend, its bias will be toward tightening, albeit very gradually unless inflation rears its head.

- While the unemployment rate remained unchanged to one decimal place (it fell slightly to the second decimal place), it did so amidst a rebound in labor force participation. This is a trend to watch. Should the participation rate continue to inch up, it will imply the recovery in the job market has extended to eating up "shadow slack." This is precisely what the Federal Reserve is hoping for.

- Some of the mystery of slow wage growth is explained by a poor rate of productivity growth. With economic growth looking to have slowed to around 1% in the fourth quarter, given the rate of job (and hours) growth, productivity likely fell in the quarter. The Federal Reserve's powers to raise productivity are limited, which is why it will remain focused on the job market.

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