ECONOMICS
http://research.cibcwm.com/res/Eco/EcoResearch.html

Economic Flash!

February 3, 2012

Andrew Grantham (416) 956-3219

US goes back to work

U.S. Labor Department seasonally adjusted jobs data

In 1,000s, Change	Jan	Dec	(Prev)	Nov	(Prev)
in Nonfarm Payrolls	243	203	200	157	100
Jobless Rate (Pct)	8.3	8.5	8.5	8.7	8.7
Avg Weekly Hours	34.5	34.5	34.4	34.4	34.3
Manufacturing Hours	40.9	40.6	40.5	40.4	40.4
Overtime Hours	3.4	3.3	3.2	3.3	3.3
Earnings/Hour (dlrs)	23.29	23.25	23.24	23.23	23.20
Avg Weekly Hours	33.8	33.7	33.7	33.7	33.6
Earnings/Hour (dlrs)	19.62	19.60	19.54	19.58	19.54
Total Private	257	220	212	178	120
Goods-Producing	81	71	48	8	-6
Construction	21	31	17	1	-12
Manufacturing	50	32	23	3	1
Service-Providing	176	149	164	170	126
Wholesale Trade	14.0	14.8	11.6	6.9	-1.3
Retail	10.5	6.2	27.9	33.8	38.8
Transp/warehousing	13.1	6.7	50.2	9.9	3.1
Information	-13	1	6	-2	-7
Financial activities	-5	4	2	11	5
Professional/business	70	63	12	39	19
Temporary help svs	20.1	8.3	-7.5	19.7	11.2
Leisure/hospitality	44	19	21	42	30
Government	-14	-17	-12	-21	-20

Source: Thomson Reuters

- The US employment data came in much stronger than expected for January, with non-farm payrolls rising by 243K (a full 100K above consensus) and the unemployment rate falling a further two ticks to 8.3%. With unemployment now being lowered by greater hiring rather than reduced participation, this should aid GDP growth and possibly attract previously discouraged workers back to the labour force.

- The increase in non-farm payrolls was driven by private sector hiring, with the public sector seeing further retrenchment. Manufacturing employment rose by a solid 50K— the strongest increase in a year —while employment in the construction sector increased by a further 21K following a 30K gain in December. Part of the story here, though, may be unusually mild winter weather stemming normal seasonal layoffs and even promoting hiring in some areas.

- Gains in private service sector employment strengthened slightly compared with December, led by greater hiring in areas such as professional & business, leisure & hospitality and education & health.

- Transportation & warehousing employment rose by 13K, although December's outsized gain of 50K was revised away to show an increase of only 7K. Annual revisions to the payrolls data within this report appear to have smoothed the shifting seasonality which had been present in this series.

- Outside of this sector, though, revisions to previous figures were mainly upwards. December's payrolls number was edged up marginally, but November saw a healthy lift to 157K from a previously reported 100K.

- A larger-than-usual annual revision to the working age population (the almost 1,700K increase was the largest adjustment since 2000) complicates analysis of the household survey slightly. The participation rate is now estimated at 63.7%, compared to 64.0% in December. However, this reduction is explained wholly by adjustments to the labour force, as most of the population growth was seen in age groups (16-24 and 55+) where participation is generally lower. Accounting for this adjustment, participation would have been unchanged from the previous month.

- This means that the reduction in unemployment rate seen during January was entirely the result of increased hiring. Indeed, even after adjusting for population effects, employment jumped by a remarkably healthy 631K on the household survey measure (847K before adjustment). The employment ratio remained at 58.5%, although again would have shown an improvement if adjustments were included, as prior months would have been lowered.

- The data for wages and average hours, though, remain on the softer side. Average weekly hours worked were flat at 34.5, while hourly earnings rose by a mere 0.2%. The annual increase in hourly earnings eased down a touch to 1.9%, from 2.1%.

Implications & Actions

Re: Economic Forecast — The US economy has begun 2012 with something of a hiring spree, and two consecutive 200+ payrolls readings are the clearest indication yet that labour market conditions have improved. If such hiring were to continue, and assuming even modest productivity gains, GDP growth in Q1 should better our current forecast of a 2% pace.

Re: Markets — The better-than-expected figures proved a clear positive for equities and risk-on currencies such as the C$, and a negative for fixed income.