TD Economics

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Data Release: U.S. payrolls surge by largest amount in almost three years

- Non-farm payrolls rose by 321k in November, blowing past markets expectations for 230k. Private-sector employment increased by 314k, also surpassing the consensus forecast of 225k.
- Positive revisions to prior months raised payrolls by 44k, with both October (+29k to 243k) and September (+15k to 271k) seeing gains.
- Across sectors, goods-producing employment rose by 48k, split between construction (+20k) and manufacturing (+28k). Private services-producing payrolls gained 266k, while government payrolls increased by 7k.
- The unemployment rate was unchanged on the month at 5.8%, ditto for the participation rate at 62.8%. The labor force increased by 119k in November, while household-survey employment rose by a subdued 4k (albeit following 683k in October).
- Average hourly earnings rose by a robust 0.4% M/M – the strongest monthly rise since June 2013. The year-over-year measure ticked up to 2.1% from 2.0% last month. Average weekly earnings also rose to 2.4% Y/Y from 2.3% Y/Y last month.

Key Implications

- If we needed any more evidence that the U.S economy is off to the races, this is it. November was the tenth consecutive month with over 200k jobs created, and along with a slew of other positive data, including the ISM surveys and vehicle sales for November, suggests that the U.S. economy is on very firm footing.
- Although wage growth mildly ticked up on a year-over-year basis, the robust monthly gain is a good sign that more is to come. As long as wage growth continues to materialize as we expect, then in addition to the fall in oil prices (an effective tax cut for consumers) the U.S. economy will surf a rising wave of domestic spending over the next several quarters.
- If there is one soft spot in an otherwise glowing report, it is the participartion rate, which remained unchanged. The hope is that, going forward, the gains in the labor market will encourage disenfranchised workers back into the labor force.
- With this latest payrolls report, the employment-side of the Fed's mandate continues to steadily approach its objective. While inflation has moved in the opposite direction, the Federal Reserve is looking past the downward impact of lower energy prices and a stronger dollar on price growth, and expects the absorption of economic slack to lead inflation back towards target in 2015. Market attention will now turn to the Fed's next meeting on December 16-17th, and likely changes in the wording surrounding an eventual first rate hike, as hinted by Fed vice-chairman, Fischer, earlier this week. It wouldn't surprise us if markets begin to bring forward their assessment of the first lift-off in rates, which for a while now has been priced in for September.

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