

Flash Comment

US: upbeat jobs report

- **US non-farm payrolls surprised on the upside, rising 243k. Net revisions in previous months were +3k. This was stronger overall than consensus of 140k and our estimate of 135k.**
- **The unemployment rate also surprised by falling further to 8.3% – the lowest level in three years. The payrolls income proxy rose 5.3% (3M AR), which provides a solid base for consumption growth.**
- **With the second major gain in a row, the 3M average is still around 201k – unchanged from the previous two months. We believe this will continue to rise into the 150-200k territory in coming months, as growth is picking up at the beginning of 2012. We now see some upside risk to our GDP forecast of 2.5% next year, as employment dynamics are stronger than expected.**

Details

US **non-farm payrolls** rose 243k in December. Net revisions were +3k. This was the second month in a row that employment has risen by more than 200k. This is very encouraging in light of the low expectations, as most saw December's increase in service employment as a product of temporary seasonal effects.

The rise in payrolls was driven by an increase in service jobs of 176k – over 10k more than last month's growth. This is decent but not great. However, it fits well with the pace of consumption growth around 2.5-3.0% currently. Manufacturing jobs growth was surprisingly strong, rising 50k, the largest gain in over a year. Construction was also quite strong as the sector added 21k, only slightly less than the strong December reading, as the mild winter weather continues. The government sector lost 14k jobs, slightly less than the previous two months around -18k.

The **unemployment rate** fell surprisingly to 8.3%, from 8.5% in December. This was better than the consensus estimate of an unchanged reading. Contrary to last December's fall in unemployment, the January decline comes on the back of both a rise in employment from the household statistics of 847k and a fall in the labour force of a significant 508k.

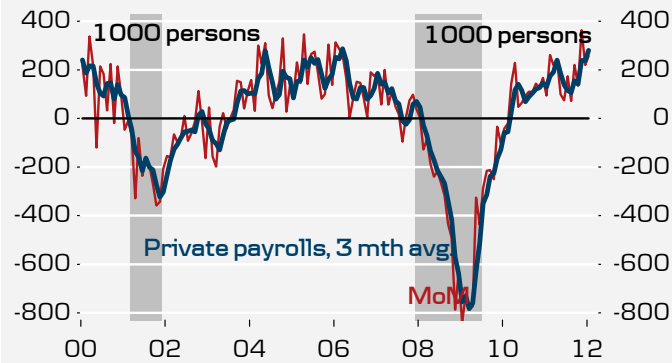
Average **weekly hours** rose to 34.5. The strong jobs growth meant this led to a rise in aggregate hours of 0.2% m/m. Average **hourly earnings** rose 0.2% m/m from a downwardly revised 0.1% m/m (previously 0.2%). The run-rate in hourly earnings is more or less unchanged around 2.0%. The payrolls **income proxy** (three month annualised) was 5.02%, up slightly from 5.0%.

Assessment and outlook

The jobs report was overall encouraging and suggests the labour market is improving. We expect job growth to average 150-200k in coming quarters, with upside risk to our consumption growth forecast for next year of 2.5%. This also puts upside risk on our annual GDP forecast of 2.5% (which is already above consensus at 2.1%).

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Private payrolls at a decent pace



Source: Reuters EcoWin, Danske Markets

Service jobs driving private job growth



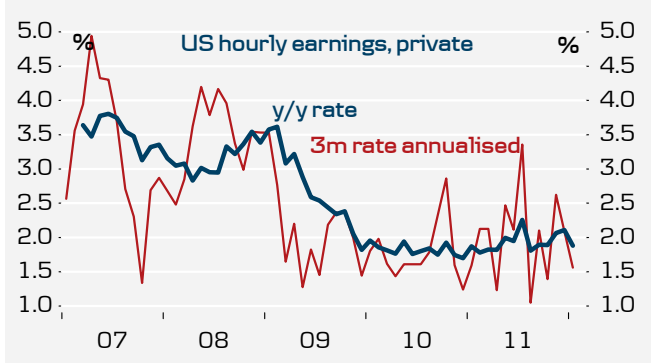
Source: Reuters EcoWin, Danske Markets

Unemployment fell sharply in December



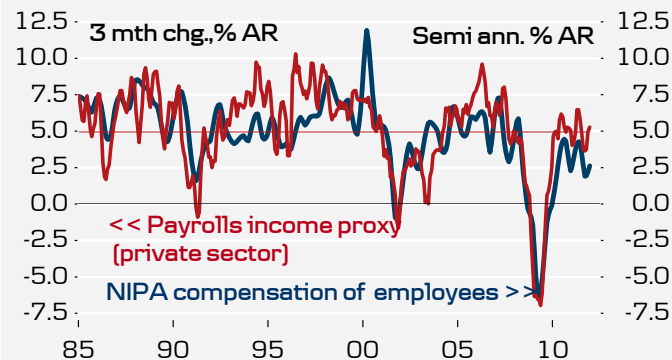
Source: Reuters EcoWin, Danske Markets

Wage growth hovering around 2% - slight signs of bottoming



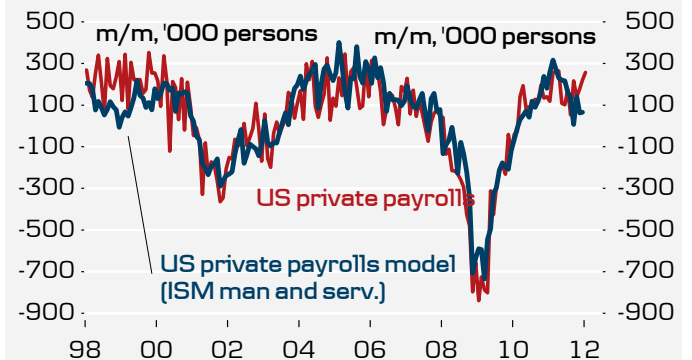
Source: Reuters EcoWin, Danske Markets

Nominal income growth decent but not great



Source: Reuters EcoWin, Danske Markets

ISM employment points to payrolls around 150k



Source: Reuters EcoWin, Danske Markets

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