

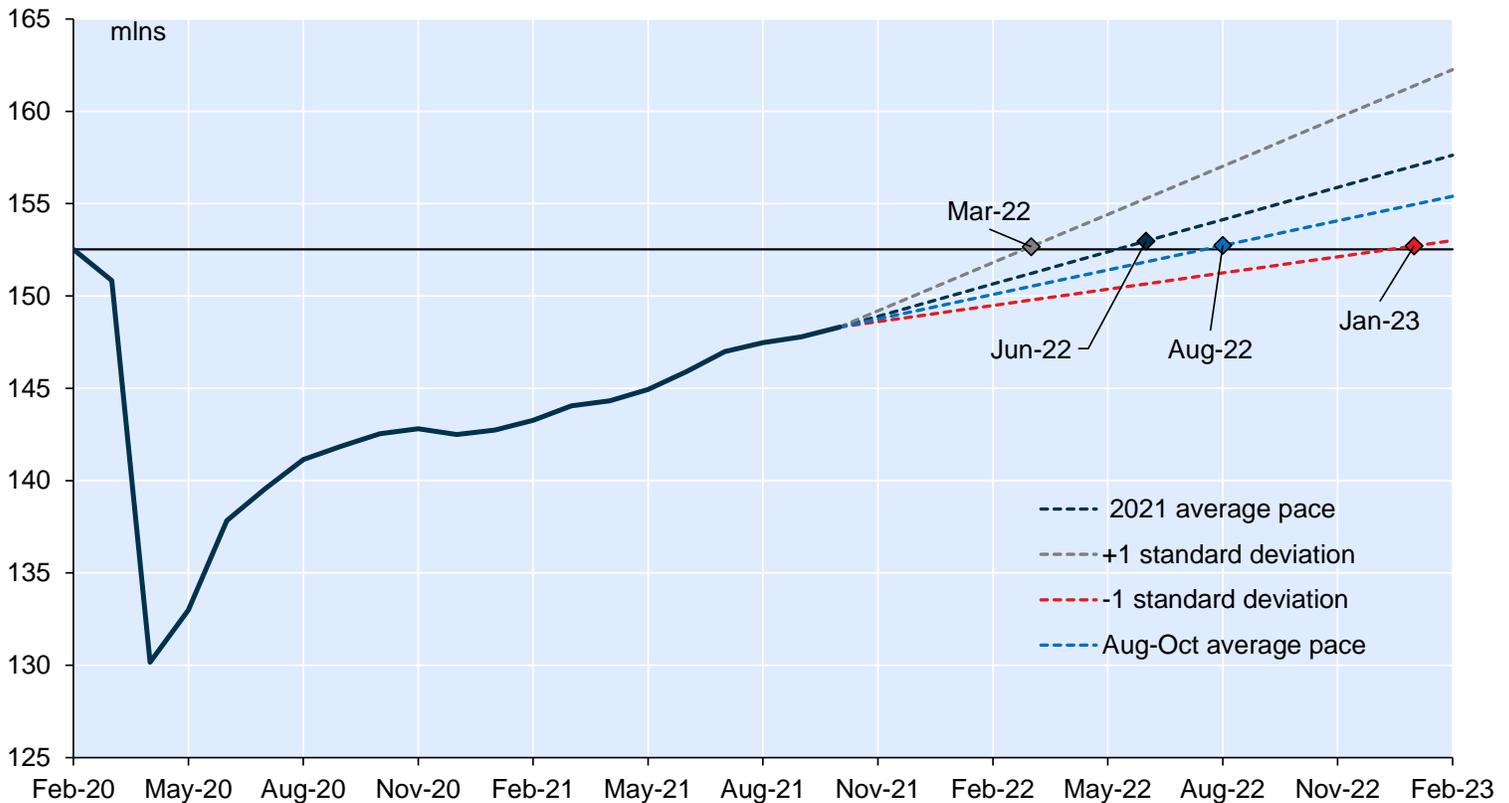
U.S. Watch

By Taylor Schleich

It was a very solid non-farm payroll report in the U.S. today, as an above-consensus headline print (+531K) alongside positive revisions to prior months (+235K combined in August and September) took a good-sized bite out of what had previously been reported to be a nearly 5 million job shortfall from pre-pandemic levels (now estimated to be a 4.2 million job shortfall). Undoubtedly, Jerome Powell and the Fed will be encouraged by today's developments even if a strong headline print didn't come alongside a similar improvement in labour force participation. And while they will continue to point to the fact that there remains a good number of Americans disengaged on the sidelines, to us, a return to pre-pandemic employment might just be enough for the Fed to begin the interest rate normalization process (particularly if, as we expect, inflation remains red hot well into next year). So just how long could we expect this return to February 2020 levels to take? While this is not meant to be a forecast of future months, a continuation of the average 2021 pace of job creation (+582K) would see the COVID employment deficit erased around the halfway point next year. Assuming the relatively more tepid pace averaged over the past three months (+442K) were to continue, total non-farm employment would be back to February 2020 levels by August. And even if we were to see a significant deceleration to a sub-300K run rate, we're still looking at recovery all but complete by the end of 2022. All that to say, even with Chair Powell pouring water on what had been increasingly hawkish market expectations earlier this week, we think well-above target inflation next year combined with what might be a fully (or at least close to fully) recovered labour market will prompt the Fed to begin to normalize interest rates in the third quarter of 2022.

U.S.: When can we expect a full labour market recovery?

Outlook for non-farm payroll employment based on various trajectories for net job gains



NBF Economics and Strategy (data via Bloomberg & BLS) | Note: +/- 1 standard deviation is based on all 2021 non-farm payroll reports

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