PM Datanote: Employment, January

In one line: Employment growth is astonishingly strong; it will have consequences for the Fed.

January payrolls rose 257K, above the consensus, 228K. Unemployment rose to 5.7% from 5.6%, above the consensus forecast for no change. Hourly earnings rose 0.5%, above the consensus, 0.3%.

Ignore the increase in the unemployment rate; month-to-month, it is just noise. What matters is payroll growth, and the numbers are huge. The net revision to Nov/Dec was a massive 147K - Nov is now put at +423K, Dec at 329K - but the story is complicated by the annual benchmark revisions, which put the level of employment in Dec 245K higher than previously thought.

The 257K Jan number seems positively pedestrian by these standards but in all likelihood it will be revised higher; the median Jan revision in recent years is +32K. With payroll growth at this pace, the unemployment rate is guaranteed to continue falling rapidly, blasting through the Fed's Nairu range 5.3-to-5.5% - over the next few months.

At the same time, the wages numbers finally are moving. The 0.5% Jan rebound means the 3-month annualized rate is 3.1%, the highest in two years. The data are volatile, but the ECI wage and salary numbers are clearly signalling a pickup, and these data are consistent with both the ECI and a host of survey evidence.

With every indicator we follow screaming that payrolls will be very strong for the foreseeable future, wage pressures will intensify. We expect Chair Yellen to signal a change in the Fed's view at her Monetary Policy

Testimony later this month, with "patient" dropped at the March FOMC, opening the door to a June hike. The chart shows that payrolls are almost always revised higher, and that the recent trend has strengthened markedly.