BIG JOBS 227K IN JANUARY AFTER DOWNWARD REVISIONS LAST YEAR

The January monthly employment situation report. 227K jobs (237K private jobs) is understandable given the slower pace of new jobs created in December 157K, November 164K, and October 124K. The annual benchmark revision knocked October/November down by 51K. It remains an open question whether the economy under a Trump administration can continue to manufacture new jobs at a 200K monthly pace in the future given the demographic headwinds where the labor market has hit full employment. There are no unemployed workers, especially skilled ones, this late in the business cycle. The labor market pool is coming up empty and will be the spoiler in the President's campaign promise to create 25 million jobs the next ten years. Wrong. Won't be happening, especially if the President builds a wall or limits immigration. The economy is unlikely to require the services of 55-year old Americans in the heartland.

The report was mixed today and the excitement over stronger wage gains this time last month has led to disappointment today. We can't wait to read the newspaper stories tomorrow after last month's news of a better deal for workers finally was celebrated. Average hourly earnings were up 2.9% year-on-year last month and now "down" to 2.5% only for today's January data. Too much was made of the "recovery" in wages. What else was mixed? The unemployment rate went up to 4.8% some 7.635 million people looking for work. The number itself is not comparable with December's 4.7% because of the annual revision. This is not a big deal the economy is still at full employment as it is ever going to be in this eight year economic expansion. During the campaign, Trump downplayed the "5%" unemployment rate, saying it was more like 20% because of the 95 million in the labor force who have given up looking for work. Politicians do often say things that don't add up,
some more than others. Underemployment, counting those who work part-time but yearn for full-time employment, the famous U-6 number was 9.2% in December and rose to 9.4% in January. It is down from 9.9% in January 2016 and nowhere near the 20% figure suggested by the President.

The breakdown for payroll jobs. 237K private jobs but manufacturing jobs rose just 5K showing Trump has a lot on his plate to bring manufacturing jobs back to America from overseas. Federal jobs up 4K in January probably for the last time as President Trump announced a hiring freeze. Reasons why the 227K may not hold up centers in the strong job gains reported in construction, retail stores, and even financial jobs. Construction jobs added 36K with residential building adding 9K and the residential specialty trade people who are parked outside my front door all the time pounding nails across the street adding 11K. This can't last. The 32K financial jobs a surprise, Dodd-Frank is not gone yet, although real estate jobs were 12K and insurance +9K. Finally retail jobs were up 34K in December and 46K in January. Wasn't the Internet going to destroy bricks and mortar stores? Anyway these gains won't last and January's retail gains centered in clothing shops (18K), electronics and appliance stores (8K), and furniture stores (+6K).

Today's employment report strikes a blow in the hopes for a faster pace of rate hikes from the slow and steady Federal Reserve. Big jobs today but what about tomorrow will be the concern from Fed officials. The big January jobs number could simply be playing catch-up from the softer numbers seen last quarter. The payroll gains were not widespread among sectors. The Fed has penciled in three rate hikes this year and with today's underwhelming jobs report they will be unlikely to act before there is more certainty in Trump's tax proposals that could boost growth and make easier monetary conditions from the Federal Reserve less necessary.
JOBLESS CLAIMS—BEST OF BEST TIMES RIGHT NOW FOR LABOR MARKET

Unemployment claims near the lows for this cycle: 233K November 12 week. Jobless claims were 246K in the latest January 28 week. The latest trend is one of improvement with most weeks in 2017 printing 250K or lower. Maybe this helped produce the 227K January payroll jobs number reported today. One thing that is certain is that the economy is at full employment as much as it is ever going to be in this cycle. If the economy is at full employment there is no pressing need for fiscal stimulus to create jobs. The timing is completely off. Historically, no other administration has done fiscal stimulus with the economy where it is today.

TREASURY CURVE STEEPER: TRUMP FISCAL STIMULUS MUMBO JUMBO

The yield curve between 2-yrs and 10-yrs was 127 bps on Friday versus 126 bps last week. 10-year Govts closed the week at 2.47%, after closing 2.48% the week before. Even with the Fed meeting “news” Wednesday and Friday’s all important monthly jobs report, 10-yr yields closed each night within 3 bps of last week’s 2.48% close. The market needs more Fed rate hikes to push 10-yr yields higher. Tax and spend policies from Washington are going to take a long time to put together.
FEDERAL RESERVE POLICY

The Fed met January 31-February 1 to consider its monetary policy. They didn't do anything. They didn't provide a hint that they might hike rates in March. The Fed provided hints in press statements a meeting ahead of hiking rates the last two times in December 2015 and in December 2016. No such signal that March was likely. The market seized on a few words in the Fed statement Wednesday: “Measures of consumer and business sentiment have improved of late.” Wow, ya think? If they are feeling it then they gotta spend it however, and right now the latest Fed forecasts for GDP growth are modest at 2.1% this year and 2.0% in 2018. No evidence of stronger growth yet the Fed said on December 14 with updated forecasts to be released on March 15.

The market did not think it was a good jobs report with average hourly earnings annuals falling to 2.5% from 2.9% in last month’s report. Presidents Evans, Trump, and Williams were okay with it. Trump sans-tweets looked a little more presidential this morning at the meeting of his CEO economic advisory group led by Blackstone’s Schwarzman. Trump opened saying, “227,000 jobs, great spirit in the country right now. So we’re very happy about that. I think that it’s gonna continue big league. We’re bringing back jobs, we’re bringing down your taxes, we’re getting rid of your regulations.” Dovish Chicago Fed President Evans called the jobs report healthy; in his December forecast, he had two rate hikes this year, but says he could see three hikes. San Francisco Fed President Williams was more confident in a Bloomberg TV interview at 130pm EST: “There are some arguments for, potentially, if the data are coming in consistent with my view, that March makes sense.” Maybe he’s waiting on the Fed’s PCE inflation indicator in a Wednesday, March 1 release where the January inflation “might” hit 1.9 or 2.0 percent up from 1.6% year-to-year in December where it is now. Inflation at target, why is the Fed funds rate less than 1%? Or maybe he wants to see another month of jobs data due out on Friday, March 3. There’s always something out there to wait for, but we are hoping for a consistent, measured four rate hikes per year pace from Fed officials soon. The economy is better than they think. Let’s go.
CORPORATE BONDS: NATIONAL RURAL, SEAGATE TECH, CROWN CASTLE

Corporate bond offerings were $45.0 billion in the February 3 week versus $28.2 billion in the January 27 week. Microsoft, AT&T, and Apple were $37.0 billion of the total. On Thursday, Johnson Controls priced $500 million 4.5% 30-yrs (m-w +25bp) at 145 bps (Baa1/BBB+). The electrical equipment manufacturer will use the proceeds for general corporate purposes, including partial commercial paper repayment. Corporate bonds (10-yr Industrials rated A2) were 84 bps above 10-yr Treasuries on Friday versus 85 bps last Friday.

Weekly Corporate Issuance

Spread: A2-Rated 10-Yr Industrials versus 10-Yr Treasuries (BPS)

TREASURY MARKET OUTLOOK

EXPECTED 10-yr 2-3 WEEK TRADING RANGE 2.00% to 2.75%

Week’s 10-YR Range

HIGH 96-10+ 2.42%

Friday, February 3, after real +227K jobs report with less wages

LOW 95-17+ 2.52%

Wednesday, February 1, ADP jobs +246K, ISM mfg 56.0
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