RED-HOT LABOR MARKET, BUT COMPANIES AREN’T GIVING IT AWAY

The labor market bounces back this month giving credence to the Fed's statement this week that it regarded the economy's recent slowdown as just transitory. Payroll jobs rose 211K in April after the downward revision in March to 79K, so they got that right, the payroll jobs slowdown in March was indeed temporary. Most startling is the drop in the unemployment rate to 4.4% which is also the lowest level during the Greenspan housing bubble years when the economy was strong and workers were fully employed.

Speaking of full employment, this is the time when labor is in short supply and firms have to offer new employees more compensation to get them on board. That's the economic theory. Wages or average hourly earnings may have risen 0.3% in April, faster than the downward revision in March to an increase now of just 0.1%, but wages over the last year are still around samo-samo 2.5%. If the labor market is heating up, employees are sure not seeing a bump up in their paychecks. The only thing that worries us a little is the lack of oomph if you will behind that 211K rebound today. And the rebound characterization is not quite right as it would have taken closer to 300K to completely make up for the relatively few jobs (79K) created in March. The 211K result was a little uneven. Construction and manufacturing jobs growth...
was tepid, with gains of 5K and 6K, respectively. Retail jobs did not come back as much after a big 27K drop in March as new retail jobs in April rose just 6K. Maybe it's right that bricks and mortar retailing establishments are losing ground to shoppers sitting on the couch with their iPhones. Also the 211K jobs were boosted by stronger hiring this month that we would call "transitory" one-offs with government jobs up 17K and financial jobs up 19K; both categories probably will not hire as many workers in next month's report.

In conclusion, the labor market rebounded moderately in April from a weaker reading in March. The surprise one-tenth drop in the unemployment rate to 4.4% is another turn tighter of the screw for the jobs markets. If you can't find a job in this market, notice we did not say good job, if you can't find a job maybe tweak your resume a little because there is plenty of work out there. You have to go back to May 2001 to find the unemployment rate lower and better than it is today.

Today's report was better than expected and has to be a relief to Fed officials that probably were less sure the slowdown in March was just temporary, despite the bold prognostication released in the statement after Wednesday's Fed meeting. The fundamentals underpinning continued growth remain solid they said; let's see if consumer spending and GDP rebound as well.

One of Yellen’s favorite reasons for moving interest rates up gradually is this series on "involuntary part-time employment" which is tumbling and the argument against higher rates is crumbling.
JOBLESS CLAIMS—BEST OF BEST TIMES RIGHT NOW FOR LABOR MARKET
Unemployment claims have been volatile the last two months and fell back sharply by 19K to 238K in the April 29 week. The labor market continues to tighten up with the new low in the official unemployment rate to 4.4% on Friday and the number of people receiving unemployment benefits are also at a new low for this “recovery.” More Fed officials are saying the economy is at full employment even though wages are not seeing much pick up. The inflation part of the dual mandate fell back in Monday’s report: March core PCE is 1.6% YOY and was 1.8% YOY in February.

TREASURY CURVE WAS STEEPER: TRUMP FISCAL STIMULUS MUMBO JUMBO
The yield curve between 2yrs and 10yrs was 104 bps on Friday versus 102 bps last week. 10-yr yields a little higher this week at 2.35% on Friday versus 2.28% last Friday, April 28. Yields moved up 4 bps on Wednesday Fed meeting news where the committee thought the slowdown was just temporary. Not much changed on the 211K jobs report Friday. The trading range was basically one-quarter point which has got to be a new record in this era of reduced volatility.
FEDERAL RESERVE POLICY

The Fed met May 2-3 to consider its monetary policy. In the second paragraph of Wednesday’s press statement they inserted a line saying they thought the slowdown in growth in the first quarter [0.7% GDP] was likely to be transitory. The market took this as a sign that a June rate hike was still on the table. Just to be clear (crystal), Fed funds futures (the July contract) odds of a 25 bps rate hike on June 14 moved from 62% (1.065%) on May 2 to 66% (1.075%) on May 3 after the Fed meeting news. After the 211K jobs data today, the odds lifted higher from 68% Thursday to 74% at Friday’s close.

The market took the 211K jobs report as a sign the slowdown was indeed transitory even though payroll employment doesn’t have to match the trend in GDP growth necessarily. It was interesting that the Fed statement said “job gains were solid, on average, in recent months” ignoring the one-month slowdown in March of 98K (revised to 79K in today’s report). This suggests to us that they are emphasizing the drop of the unemployment rate as the key indicator of the labor market not payroll jobs that all know and love. What can we say? The Fed statement was Wednesday and now it is Friday. The 4.4% unemployment rate reported today for April is the same as the very best level reached during the good ‘ol Greenspan housing bubble years. What on earth is the Fed funds policy rate doing at 1%? It was 5.25% when the unemployment rate was 4.4% in 2006. We guess the Savers of the World don’t have a Union. No complaints heard. The Fed saying they are delaying needed policy adjustments because they are waiting for inflation to recover just doesn’t cut it. It doesn’t make sense. Let’s see what the Trump Fed does. Roll the dice.

So You Want to be a Fed Watcher: Dog Bark at Moon News headlines

- Rosengren: R-star unobservable, large standard error
- Williams: neutral, real interest rate is about 0.25%
- Bullard: start to trim balance sheet in second half
- Evans: Extremely important Fed hits inflation target
- Williams: Still view Fed may hike rates 3-4 times in 2017
- Bullard finds puzzling QE’s lack of effect on inflation
- Williams: Fed should consider price-level targeting
- Rosengren: QE is one reason US is at or a bit below full employment
- Bullard: if Fed hikes once or twice it’s not the end of the world
- Yellen says more women in workforce would help boost growth
- Fischer: Coherence need pushes Fed towards consensus
CORPORATE BONDS: APPLE, SHERWIN-WILLIAMS, UNITED TECHNOLOGIES

Corporate offerings were $38.6 billion in the May 5 week versus $26.7 billion in the April 28 week. On Thursday, Eli Lilly and Company sold $2.25 billion 5s/10s/30s. It priced $750 million 3.1% 10-yrs (m-w +12.5bp) at 75 bps (AA-/A2). The pharmaceutical company will use the proceeds for general corporate purposes and to repay debt coming due in 2018 and 2019. Corporate bonds (10-yr Industrials rated A2) were 84 bps above 10-yr Treasuries on Friday versus 86 bps last Friday.

TREASURY MARKET OUTLOOK

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

Week’s 10-YR Range

HIGH 99-24+ 2.28%

Wednesday, May 3, ADP jobs only 177K

LOW 98-28+ 2.38%

Friday, May 5, 211K real payroll jobs report, first reaction
Analyst Certification

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