The monthly employment situation report, the biggest economic report in the world. All right stop it. Economic news reports have stopped moving the markets. Bond yields were 2.34% before the jobs report and now three basis points higher at 2.37% (9am EST). Dow stock futures down 18 points and now up 6 points. Incoming economic data like today's "all-important" jobs report are unlikely to alter the course of interest rates. The future path of rates. Unless there is an early change in management at the Fed, officials in Washington will either raise rates two or three times this year, and we are hard put to think of a reason why Yellen would pick up the pace.

Payroll jobs 156K, unemployment rate up a tenth to 4.7%, and wages at $26.00 an hour are up 0.4% this month to a 2.9% year-on-year pace, the fastest yet in this "eight-year" recovery from the Great Recession. [Note: hold the champagne, grab a beer like the graph below here of workers, not their bosses, wages up 2.5% to $21.80.] The bond market sold off on wages we guess as it is a sign...
that labor market pressures are intensifying as companies scramble for workers with the economy moving beyond full employment. HR departments beware, this year is the year of the worker, and you better pay ‘em or lose ‘em. This is classic Economics 101, the unemployment rate falls and this leads to higher wages. No inflation yet, but more wages for the angry electorate in the middle of the country wound up by the President-elect over their stagnant wages and income inequality.

Payroll jobs did not reach our 210K estimate today, but they keep revising up the past jobs numbers. A couple of months ago there were three straight months of sub-200K jobs numbers, but now we have some big ones in there.

Seems to be a one-month on, and one-month off situation for this trend.

Remember how the litmus test of a strong economy was consistent 200K monthly jobs reports? Tapering and "liftoff" required 200K numbers? Well, forget about it. The economy is at full employment 4.6, no 4.7, no 4.6, no 4.7 percent unemployment. This is it. The labor market is at full employment already for this cycle. The housing bubble boom economy years had an unemployment rate low of 4.4%. This is it. And don't be concerned about the one-tenth rise to 4.7% today. Last month's 4.6% unemployment rate was barely there the 3-digit figure being 4.646%.

Why the slower 156K in December after 204K in November? Well it cuts both ways really. Construction weaker (-3K), but Donald Trump brought back 17K manufacturing jobs. More manufacturing jobs in furniture, motor vehicles, fabricated metals, primary metals, wood products. Good stuff. The relative slowdown this month is services related, especially business services where temporary help jobs fell 16K after rising 24K last month, a 40K slowdown all by itself.
To conclude, don't be fooled by the slower 156 thousand jobs created in December in today's report, the economy's engines continue to rev up the labor market and wages are starting to jump even before we get those minimum wage hikes in January. The good times are starting to roll. The economy has hit the wall of full employment and we are going to see wages really start to jump. Payroll jobs grew 2.2 million this year, down from 2.7 million in 2015, down from 3.0 million in 2014. The Great American jobs machine is starting to sputter and slow, not because the economic outlook is darkening, but because the labor pool has shrunk. The pool is all but drained especially for skilled workers. We can’t bring factory jobs back because there’s no one out there to run them. All those who lost jobs in the Great Recession have found work. We honestly don’t see a role for monetary policy to play at this stage of the business cycle. Fed officials should think more carefully about their current plan to raise rates gradually and cautiously. The economy is normal and so should interest rates be. The economy is stronger than the 156K jobs report thinks.

Low unemployment might push wages to 3.5 – 4.0% eventually, but wages also follow inflation and inflation is low at 2%.

FEDERAL RESERVE POLICY

The Fed meets next on March 14-15 we mean January 31-February 1 to consider its monetary policy. We are looking for them to... no, we can’t say it. Nothing’s gonna happen. As far as the Fed taking action, we’ve kind of given up on these non-press conference meetings as being ones where there is even a “very tiny” possibility that a rate hike could in fact occur. After the 156K payroll jobs data today, there is no reason to believe that a March 2017 meeting rate hike is especially urgent either given the cautious track record of the Yellen Fed on the normalization of interest rates. And don’t get too excited by the increase in “wages.”
What could put a rate hike in March on the table? We suppose a couple months of 250K jobs numbers and a 4.4% unemployment rate could do it. Headline PCE inflation is 1.4% and core PCE inflation is 1.6% and with energy prices moving up it is possible that PCE headline inflation gets very close to 2.0%. Perhaps with the January PCE inflation data to be reported March 1, 2017, the last inflation report before the March Fed meeting. Maybe inflation “heating up” could do it, prompt a rate hike, but you’d probably need the bond market to “ratify it,” to push 10-yr yields to 3% for Fed officials to be convinced that there are “expectations of greater inflation.” So maybe stronger labor market data which we aren’t expecting, or stronger GDP growth that we also aren’t expecting so early on ahead of any President-elect Trump initiatives is not going to put a March rate hike on the table. It would have to be more inflation, chiefly through higher gasoline prices at the pump. Have you noticed these gas prices have moved up recently? Us either. But they have. The public is not thinking too much about inflation. Either is the Fed if you believe San Francisco Fed President Williams who said in a NY Times interview on December 20, 2016, that theoretically there is no reason not to allow inflation to go as high as 3 to 4 percent. Allowing inflation to overshoot for what we don’t know; maybe to bring those “95 million labor force dropouts” back into the labor force, the 95 million that don’t exist unless you are a politician looking for votes. We don’t know how to answer a Williams 3-4% inflation target, so we will wait for Paul Volcker the 80s “inflation-slayer” to respond to the young man.

In short, there is not a lot of change coming for Fed policy in the near term that we can see. Wages may be picking up and this sent bond yields up on Friday after the jobs report, but wages are ways away still from 3.5 to 4.0 percent seen in 2006 when the Fed was pushing interest rates to 5.25%. We will watch to see if there is any news that could put March back up on the Fed’s calendar for a rate hike.
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