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ECONOMIC TALKING POINTS

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The Takeaway From the Employment Report

The bottom line about the October jobs report is that the US continues to remain the single brightest spot in the global economy. Let's start with that.

Sure, you can argue last month's payroll numbers still weren't climbing fast enough and that wage growth has been lagging. But upon closer examination, those spot comments fail to capture the more meaningful trend underway in the labor market.

First, if history is any guide the first release on monthly payrolls will again be revised upwards. That's been the case for every month this year except one. The initial 214,000 estimate in total payrolls in October was disappointingly low given all the many very positive economic reports in recent weeks (such as GDP, ISM, Consumer confidence).

But let's keep this in perspective. Traders in the financial markets focus intensely on the preliminary job statistics and typically pay less attention to subsequent revisions. But economists, business leaders, investors and government policymakers usually do the reverse. They wait for more complete information to better understand where the broad economy is actually heading. We expect the final tally for October will show an even stronger job market with payrolls nearing 250,000 to more accurately reflect the robust business activity currently underway.

Second, many large employers with exposure to multinational markets are worried that the weakness seen in Europe, China, Japan and several emerging countries will soon ricochet and pull the US economy and hiring down. While some large American firms are more affected by the dismal growth overseas, business activity here is unlikely to stumble since it is now powered largely by domestic demand. More on that point in a moment.

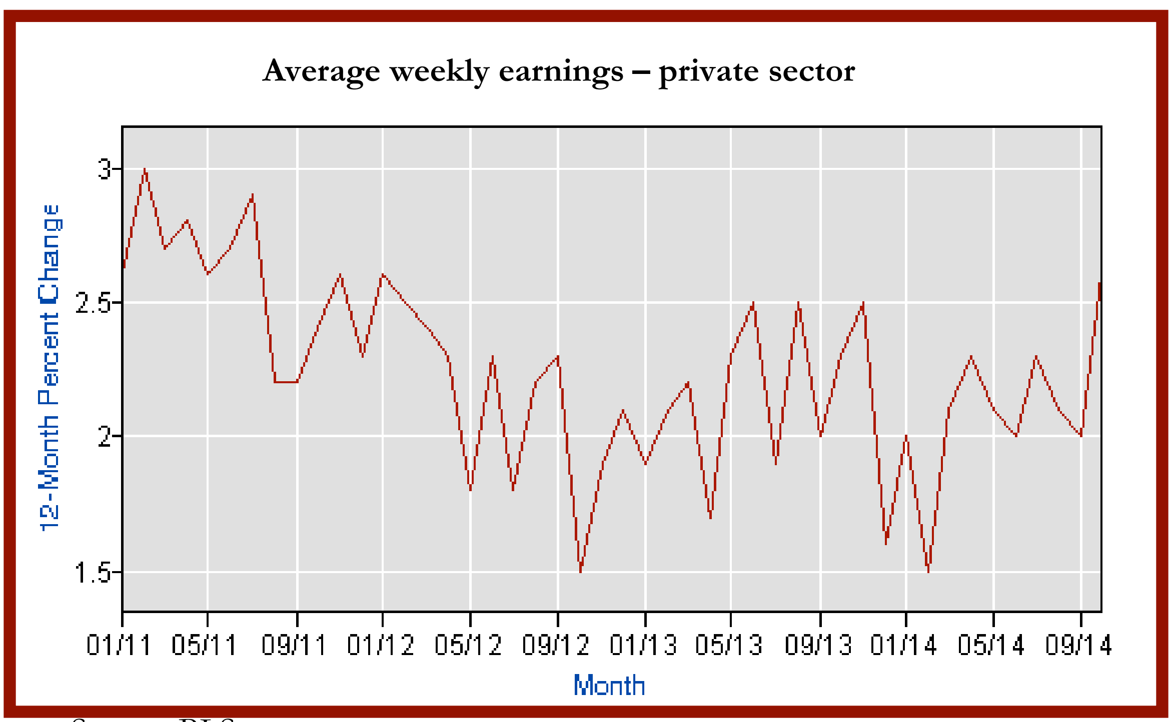
Let's return to the October job numbers and get a broader perspective of how the economy and the job market are faring.

Even in this preliminary report, we see fresh evidence that the economy is gathering more momentum.

- Total average weekly hours worked in the private sector rose to 34.6, the most since May 2008!

- Even more impressive has been total average weekly earnings in the private sector. Why focus on average weekly earnings rather than average hourly earnings? We do this to get a fuller picture of employee income during the month. Average weekly earnings is derived by multiplying average hours worked with average hourly earnings.

It turns out that average weekly pay last month jumped 2.6% from its year ago level, the biggest annual leap since January 2012. OK, it's not the hefty increase we had hoped to see by now. But it's clear the transition to faster wage growth has begun and this upturn in pay has also been confirmed in a separate report. The BEA's personal and spending release showed that aggregate wages and salaries has been climbing above 5% (year-over-year) in each of the last three months! Thus not only is pay marching higher in nominal terms, but also after adjusting for inflation. Americans are starting to see real gains in purchasing power.



Source: BLS

• We also saw other revealing data points in the household survey. The number of people who acknowledged being employed last month jumped by 683,000, the largest monthly increase of the year. Over the last 12 months, employment in the household survey rose by 3.8 million, a pace we haven't seen in 14 years! A similar uptrend occurred in the establishment survey. Total payrolls in the last year jumped 2.6 million, the second best annual increase since early 2006.

• A couple of other noteworthy points. The short term unemployment rate in October, which focuses on those out of work for 26 weeks or less, has now dropped below 4% for the first time since the recession began. And the number of those jobless 27 weeks or longer fell to 2.9 million, the fewest since January 2009.

• The number of part timers stuck in their current jobs because they could not find suitable full time work fell to 7.0 million, the smallest number in six years!

Source: BLS

• Buried deeper in the employment release are a few other key stats. The demand for truckers remains strong. The transportation industry hired another 3,900 last month, bringing those numbers up to 1.4 million, the most since November 2007. Employment in this industry has always been a good leading indicator on the vibrancy of the US economy.

• One other particularly telling piece of data has been the jump in employment at day care centers last month. If both spouses find jobs, they are likely to drop off their young children at such locations. Since most states mandate that childcare centers maintain a certain ratio of caregivers to children, a jump in employment at these locations should be viewed as another encouraging sign that both parents are finding employment. Last month, day care centers hired another 1,900 people, bringing total employment to a record 866,400.

Let's return to the concern that lackluster growth outside the US will inevitably put the brakes on economic activity here. While we have downgraded growth for Europe, Japan, China, and Brazil for next year, the US will end on a strong note this year, and is well positioned to show even more growth in 2015. Exports may slide a little, but they up just 13% of our GDP. So even if shipments to foreign markets drops off, it will be more than offset by the acceleration in domestic economic activity.

Why is the US economy to gain more traction next year? Here are a couple of reasons.

1. The strong dollar will keep inflation muted and this will allow the Federal Reserve to be much more patient about lifting short-term rates.

2. The drop in gasoline prices will benefit more than 300 million Americans, who stand to gain another $50 billion (and counting) in spendable funds.

3. The plunge in claims for jobless benefits to the lowest level in 14 years tells us employers are working hard to retain employees. The combination of fewer pinks, the effort to prevent current workers from leaving for a more lucrative post, and the need to fill 4.84 million job openings (the most in 14 years) --- all leads to a simple conclusion: The supply demand dynamics for workers will push real wages higher in the coming months and quarters. Higher pay, along with falling energy prices, sets the stage for a self-reinforcing cycle of more consumer spending and greater business investments.

4. Consumer confidence surveys uniformly agree that Americans are the most optimistic they have been in seven years!
Better household finances, record net worth, lower prices at the gas pump and a falling jobless rate are the prerequisites that should keep consumers in a shopping mood even after the holiday season.

5. The GOP victory in the midterm elections also makes it more likely corporate tax reform will become a reality, a prospect that will encourage businesses to ramp up capital spending and even hiring next year.

So, while the international economy appears to be stumbling for now, the US has managed to successfully decouple from the rest of the world. Not only do we expect this country to remain an island of growth next year, but the US could ironically benefit again in 2016 and 2017 as those long troubled foreign economies begin their turnaround.

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