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ECONOMIC TALKING POINTS

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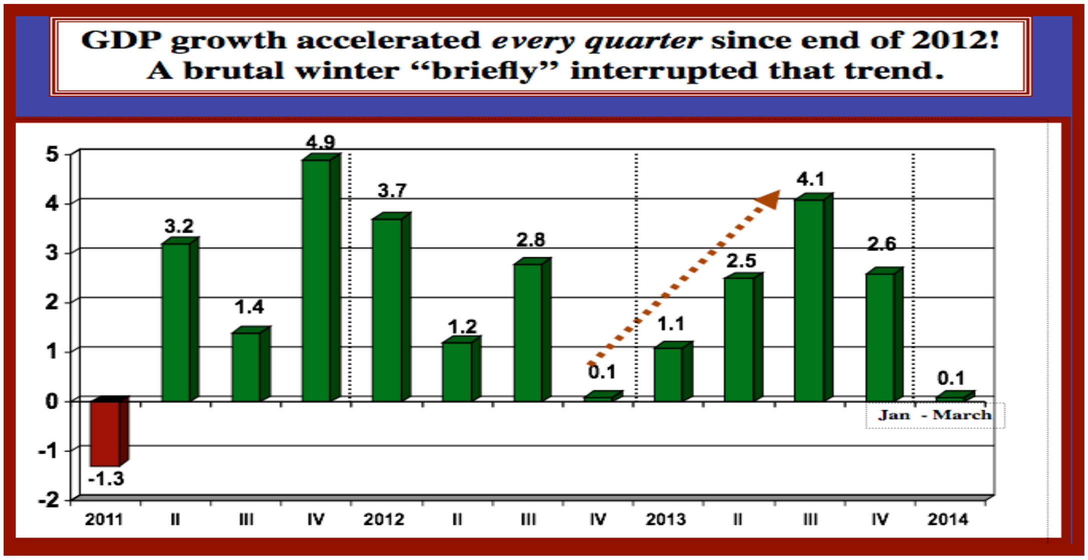
April's Job Report: The US is On Approach to a Self-Sustaining Economic Expansion

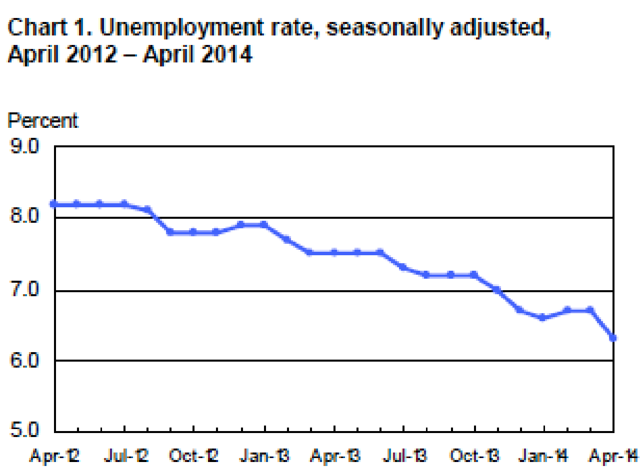
Are the latest strong job numbers merely a short-lived bounce from the depressed levels we saw earlier this winter? Or does the recent acceleration in hiring represent an economy that is in fact gaining more cyclical momentum?

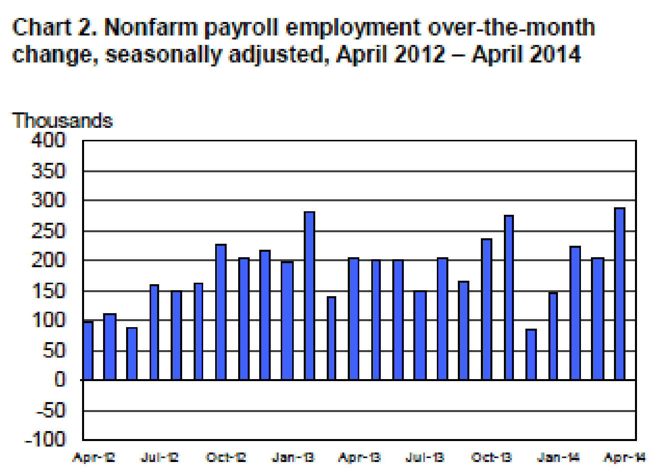
The answer is now quite obvious. A preponderance of data over the last 12 months show the US economy is gathering more steam and edging closer to a self-sustaining expansion. Those who argue otherwise choose to either ignore the plethora of positive economic numbers lately (and we view the preliminary Q1 GDP as a one off weather-related data point), or whine the data is subject to political manipulation.

Since the end of 2012 --- US economic growth accelerated in every quarter until the country got slammed by the most severe winter weather in recent memory in the final quarter of 2013 and the first quarter of this year. Let's recall this was the coldest winter in more than 30 years, according to weather archives, and among the top ten snowiest winters ever.



We knew that once temperatures warmed up, the economy to pick up where it last left off. That is precisely what is happening. Today's jobs report adds to the body of evidence that businesses have looked past the winter slowdown and are now sufficiently optimistic about the economic outlook to ramp up hiring. Barring the eruption of a major geopolitical crisis, we should see 2014 and 2015 as the best back-to-back years in a decade for the economy.





As for the latest employment release, April's payroll jump of 288,000 is the largest increase we have seen since January 2012. The upward revisions for March and February are also impressive. But lets drill down further into the report to get a broader perspective of the dynamics playing out in the current job market. Here are the most telling stats:

Government Employment

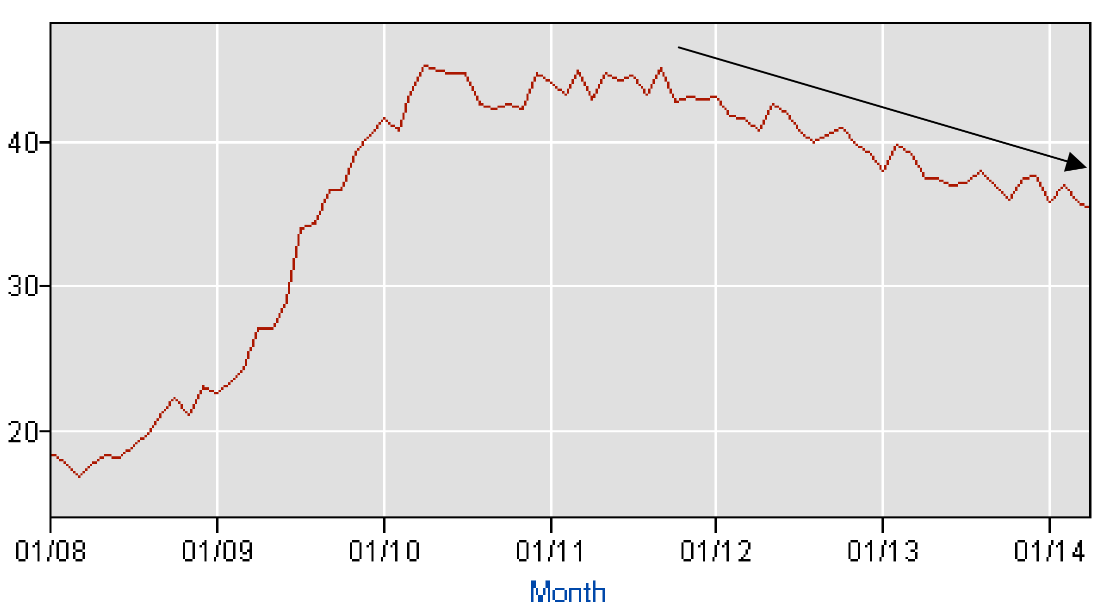
- One source that will make a greater contribution to employment in the coming months will be state and local governments.

Together they filled 18,000 new positions last month, while federal agencies slashed 3,000 posts, for a net government gain of 15,000. April marks the third month in a row we saw a net increases in official hires, the first time that has happened since the spring of 2008. This trend can be attributed to the fact that state governments have been collecting a record amount of tax revenue thanks to a rebounding economy. In the last fiscal year they collected more than $864 billion, and with coffers now filling up, so will new hires.

Long-term Unemployed

• One area that has long been of concern is the number of people out of work 27 weeks or longer. It's one of the metrics monitored closely by the Federal Reserve, especially Janet Yellen. Yet, we have now seen a persistent decline in this category. The figures on those jobless for at least half a year has fallen to 3.45 million, lowest since March of 2009. This group now accounts for the smallest proportion (35.3%) of the official unemployed since August 2009.

Percent of those out of work 27 weeks or longer among unemployed in the labor force



Duration

• Another barometer of labor market conditions is the average number of weeks people were jobless, which slid to 35.1. The last time it was less was June 2010.

The Two Unemployment Gauges: U-3 and U-6

• Once again, there has been controversy over the commonly sited unemployment rate metric (U-3) now that it dropped to a near 6-yr. low of 6.3%. This decline was due largely to the 806,000 plunge in the civilian labor force. But when we probe deeper on what was behind this massive drop, the data shows it was due in large part to far fewer people entering the workforce last month, and not some mass exodus of people out of the work force. Only 1.04 million new Americans joined the labor force in April, the lowest since July 2009.

If, however, we focus more on the broader definition of unemployment (U-6), which includes those marginally unemployed (i.e., those who want a job but are no longer actively seeking one) plus those stuck with part-time work for economic reasons, then this more inclusive unemployment rate slipped to 12.3% last month, the least since June 2010.

Labor Force Participation Rate

• The decline in April's labor force participation rate (LFPR) to a 36-year low of 62.8 will undoubtedly raise fresh concerns about how much labor market conditions have eroded in recent years.

But as we have stated in the past, we need to disentangle the components that account for the declining LFPR. Let's review them:

(1) By our account, nearly half of the decline is demographic, specifically the aging workforce and the retirement of baby boomers.

(2) In addition, more families with children have chosen to transition from a two-income household to just one.

(3) Others have decided to leave the workforce to pursue other goals, such as returning to school to acquire new skills so they can secure future employment. (For example, one technical school outside of Houston holds class on nearly on a 24-hr basis to accommodate demand from students. One particularly popular course in that school happens to be welding. Welders in the energy field are in such short supply they can earn upwards of $250,000 million a year.) The point is that those taking off to learn new skills will eventually re-enter labor force upon completion of their studies.

(4) There are also Americans who have permanently left the work force but are still earning money in the underground or shadow economy. After the Great Recession and initial weak jobs recovery, this group gave up looking for formal employment and instead chose to be self-employed. They earn money doing carpentry, repair computers, home improvement, tutor, or sell goods in a flea market --- and do all this mostly on a cash transaction basis. There's some research to suggest this underground economy represents as much as 10% of US GDP, or $1.6 trillion.

(5) Finally, there are those the Labor department classifies as "discouraged" workers, people who simply gave up looking for work and have no other plans. While this group did increase to 783,000 in April, it was the first pick up in four months. Overall, though, the number of discouraged workers has been in steady falling since last summer.

Here are our three favorite leading indicators in this employment report.

1. **Residential construction.** Do homebuilders see enough future demand for housing to hire additional workers? Absolutely. Payrolls in residential construction PLUS residential specialty contractors jumped by more than 13,000 April, bringing the combined total in both fields to 2.26 million, the most in five years.

2. Truck transportation. Are firms hiring truckers to transport goods to ports, retailers, warehouses and factories? This helps us gauge current and future activity in the supply chain distribution network. Last month, companies added 6,800 new truckers to their payrolls, the most for a single month in a year, and boosted total employment in this field to 1.40 million, the highest in six years!

3. Changes in the hiring of **temporary workers** are often a harbinger of trends in permanent employment. There is no question that employers have ramped up hiring temps so far this year. They have added more than 20,000 people to such payrolls in each of the last three months, the fastest pace we have seen in two years. Total temporary employment has now climbed to 2.86 million, the most ever.

Bottom line:

When you combine the April news on employment, along with the bullish releases from the ADP Employment Report, the ISM manufacturing employment data, the Jobs Openings & Labor Turnover Survey (JOLTS, which hit a 6-yr high in more new job openings), the sharp decline in applications for unemployment benefits, the resurgence in personal spending, and finally the pick up in confidence among both consumers and CEOs, what emerges is unambiguous: The US economy is poised to show much faster growth the rest of this year and next.

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