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Jobs Data May Be a Temp Setback

The bull cycle could last for another two to three years, supported by a still-accommodative Federal Reserve.

By Bernard Baumohl

The nearly unrelenting stream of disappointing reports lately has greatly muddied up the economic outlook for many analysts. Recent stats on payrolls, consumer spending, manufacturing activity and construction were unambiguously gloomy...so much so that it raised fresh concerns the U.S. economic expansion is petering out.

Such worries are not unwarranted. After all, the economy is now well into its sixth consecutive year of growth, and the average life span of a recovery over the last 70 years has been less than five years! So it is not far-fetched to believe this business cycle is approaching its peak.

Of course anyone familiar with our thinking knows we're not in this camp. There are still too many positive forces that support growth--low interest rates, record job postings by companies, rising real wages, stable inflation, healthier balance sheets among households and firms, pent-up demand for housing, cheaper fuel prices, surging consumer confidence, and bankers ramping up lending.

These are the attributes of an economy with sound fundamentals. So why all the dismal data points?

What is key here is to recognize that even an economy with strong fundamentals can on occasion get sidetracked if it is buffeted by a set of temporary, often noneconomic obstacles. That's what happened in the first quarter when much of the country struggled through one of the most severe winters in history. One cannot be stunned if wave after wave of severe snow storms and arctic temperatures curbed hiring, slashed construction activity, and kept consumers from stores. Nor should we forget the other wrench thrown into the economy--the massive and lengthy labor dispute at West Coast ports. They significantly held up shipments of critical goods to U.S. retailers and factories, grinding the nation's supply chain system to a near halt.

Fortunately, these headwinds to growth are now history, and we fully expect the economy to bounce back in the second and third quarters. Yet we fear too many analysts have an historical memory that simply goes back to breakfast. They had either forgotten or mystifyingly dismissed the fact that prior to the first quarter, the U.S. economy was so energized it grew at an average quarterly pace of 4% in the last nine months of 2014. The point is that economic expansions do not abruptly die without cause--and there is no cause for its demise this time.

So, yes, the soft 126,000 increase in payrolls in March--plus the downward revisions of 69,000 the prior two months--will probably fuel more speculation on whether this business cycle has reached a turning point. But it is our belief that the further away we get from the first quarter, we will see more evidence of an economy that is far sounder than was portrayed the last three months. First-quarter GDP growth is projected to come in around 1%, but we would not rush into lifeboats if the number came in below that, too. Growth should resume at a 3% to 4% rate the next six months.

Nor have we changed our forecast of a Fed rate increase this year, with summer as the most likely time to begin normalizing monetary policy.

Contrary to what first-quarter data suggest, this expansion is far from over. We see this cycle lasting for another two to three years, supported by a still-accommodative Federal Reserve, rising wages, pent-up demand for housing and a return to more substantial growth in Europe and Japan.

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