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ECONOMIC TALKING POINTS

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The job market cooled in April, but don't expect the economy to do the same this quarter.

Who Do You Trust? was the name of a popular TV quiz show several decades back. The game play was simple enough: Competing contestants would be asked a question and then given numerous possible answers. Those who answered correctly most often would be game winners.

Well, today we face a somewhat similar challenge with respect to the health of the US economy. Wish indicators do you trust to tell us how healthy business conditions really are?

Chart 1. Unemployment rate, seasonally adjusted, April 2014 – April 2016

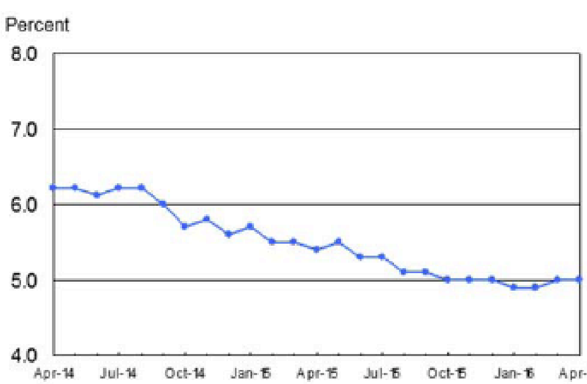
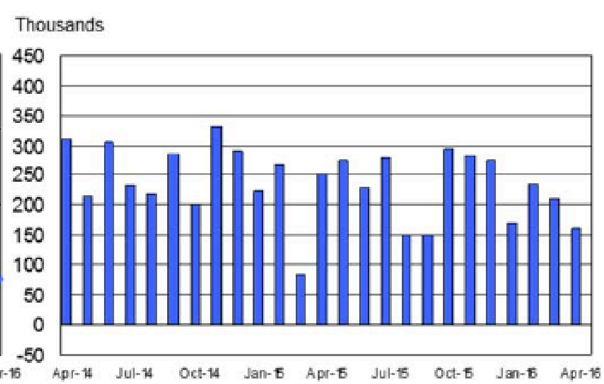


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, April 2014 – April 2016



Take today's jobs report which showed total payrolls rose by a clearly disappointing 160,000 in April. Expectations were closer to 200,000.

But let's be reasonable. Last month's preliminary figure was not a disastrous figure. We need payrolls to increase by about 135,000 a month just to keep the unemployment rate from rising, which explains why joblessness held at 5%.

So yes, the pace of total hiring has been slowing in recent months and that could be disconcerting. However, I give more weight to employment trends in the private sector because it is more sensitive to turning points in the business cycle. While the growth in private payrolls did slip a bit in April to 171,000, on a three month moving average it was higher last month (192,000) than the series showed for March (187,000)

Moreover, we also give more weight to the average hourly workweek. If demand in the economy were truly slowing, companies would be scaling back employee time on the job. Instead, Americans put in a 34.5 average week at work in April, compared with 34.4. in both March and February. Nor has there been any change in manufacturing overtime; it's remains at 3.3 hours.

One also has to be encouraged by the improvement in several other important components in this report.

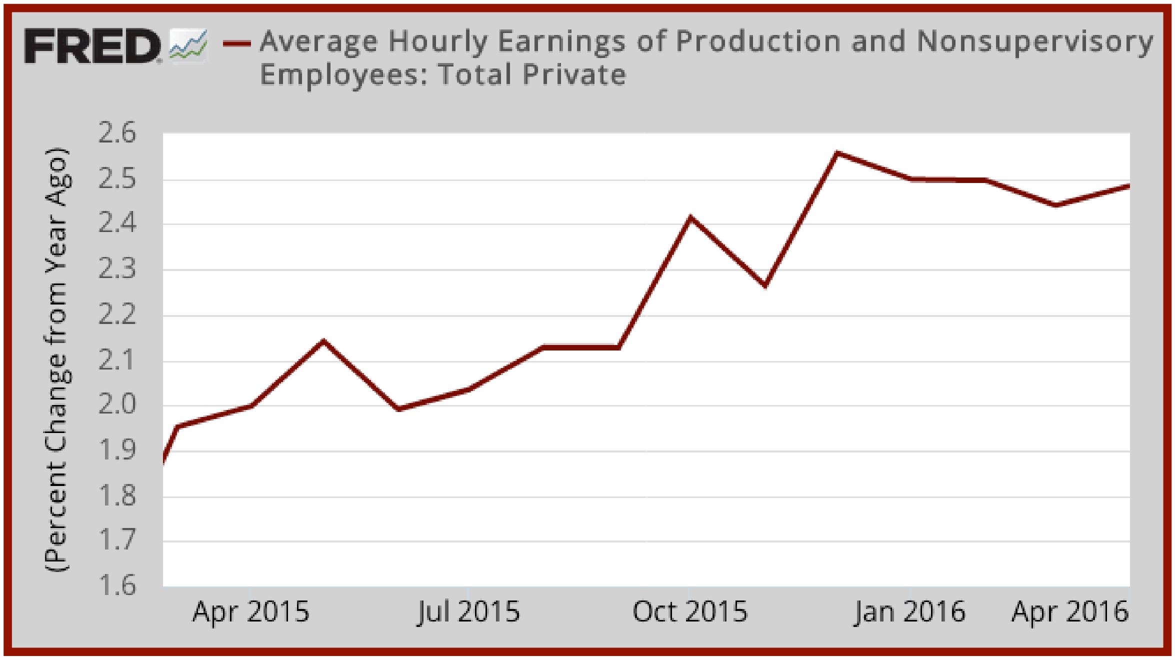
• April marked the end of job losses in the durable goods sector. It rebounded by 6,000 last month, after losing 38,000 earlier this year. This upturn may reflect the fact that ISM's new orders to manufacturers have been expanding every month this year, forcing more producers to ramp up hiring.

• Demand for truckers to transport goods around the country also increased in April.

• The number of people working in the employment services field (agents, recruiters and temp workers) jumped by a significant 15,500, the largest monthly increase so far this year.

• Part time workers disgruntled because couldn't locate suitable full time employment also saw conditions improve. This category, which is closely monitored by Fed policy makers, showed fewer people were stuck with part time work. Their numbers declined by 161,000 in April, the biggest drop since last October, and it brought the total in this group to the second lowest number since 2007.

• Finally, an economy in the midst of a serious slowdown with deteriorating labor market fundamentals would not show a firming in average hourly and weekly pay. Yet that is what happened with both average hourly and weekly pay up 2.5% year over year, better more than what occurred in February and March.



What did surprise me was the drop off in payrolls at the federal (down 9,000) and state (down 2,000) government levels. But this too should reverse quickly in large part because of new spending legislation passed late last year, such as the FAST Act ("Fixing America's Surface Transportation"), a five year commitment to finance the Highway Trust Fund, take effect. It is the first law enacted in over ten years that provides long-term funding certainty for surface transportation. In addition there is the Bipartisan Budget act of 2015 which has increased defense and nondefense spending this year and next. So we expect official hiring to turn up again this spring and summer.

Implications for Federal Reserve policy?

So what impact will April's employment report have on monetary policy? Well, it certainly makes a June increase a little less likely. I've downgraded the probability of another quarter-point hike to 50% (from 65%) at the next meeting. But let's remember: this was just a single report with a disappointing headline number that also had some fairly decent internals.

And reinforcing the view that the economy is still in very sound shape was another piece of data out this afternoon. The Federal Reserve reported that consumer debt outstanding shot up in March by the most in more than a decade!! Outstanding debt ballooned by $29.7 billion over February, the biggest one month increase since November 2001. And don't think it is primarily due to car loans and educational debt. Revolving credit, mostly credit cards, surged by a 14.2% annual pace in March, the fastest pace since July 2000.

Bottom line: Look, while economic activity stumbled the last two quarters, I see nothing to suggest that a more serious downturn or recession is underway. Low interest rates, cheap energy prices, rising employment, higher wages, healthy household balance sheets, a long term dovish Federal Reserve, a recovering housing market --- these are not, never have been and never will be the precursors of

recession. It is much more likely the last six months will prove to be the pause that refreshes, especially if we continue to see more signs of life from Europe and the emerging countries. Simply put, the US business cycle is far from over!