THE ECONOMIC OUTLOOK GROUP

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ECONOMIC TALKING POINTS

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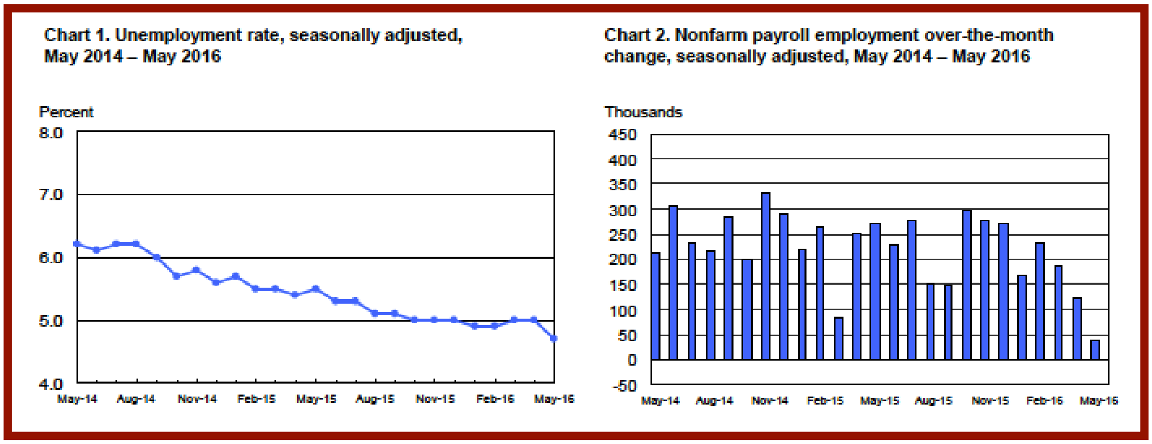
June 3, 2016

The Trumpian Effect?

Are business leaders now pulling back on hiring and investments because of the wackiest and most disturbing presidential campaign in modern US history?

Let's face it; rarely has the outlook for tax, spending, trade and foreign policies been so obscure. Whether you're a CEO or chair the Federal Reserve, the fact is that we now live in a period of epic uncertainty and that has made the decision making process much more difficult. Indeed when faced with such gut-wrenching doubt about the future, the normal reflex is to stand pat until there is some clarity about where the economy and the nation's politics are headed.

This is the context with which we view the jaw-dropping deceleration in job gains to just 38,000 overall and 25,000 in private payrolls last month. It may also go to explain the downward revisions of 59,000 during the months of March and April. And with the race between the presumptive party nominees of Hillary Clinton and Donald Trump getting tighter, one has to wonder how weak the job numbers will be the rest of the summer and fall.



Ironically, the dismal employment report comes at a time when economic activity has shown signs of accelerating so far this quarter. The government reported better than expected news in recent weeks on consumer spending, home sales, residential construction, retail trade, commodity prices and industrial output. In other words, business cycle is not approaching some sort of peak, as some will argue. It's actually on a more solid footing now than during the previous two quarters. So the question that remains is can the chaotic political environment really stunt hiring to such an extent?

We believe so.

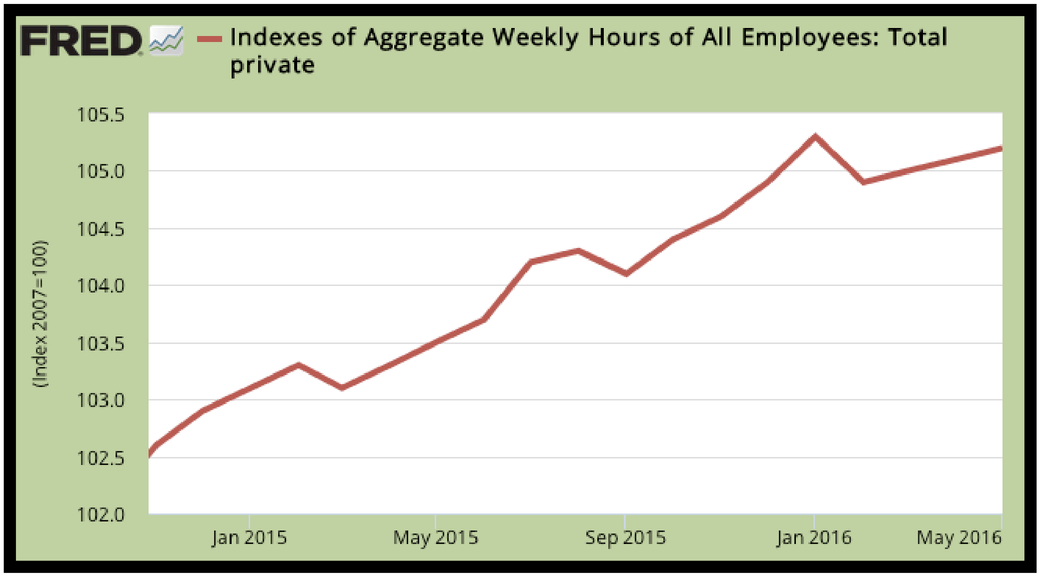
By digging deeper in the employment report, one can detect an emerging dichotomy between output and hiring. That is, rather than expanding payrolls to increase production and satisfy stronger demand, employers are asking workers to stay on the job a longer. A few quick data points from May's release suggests such trend.

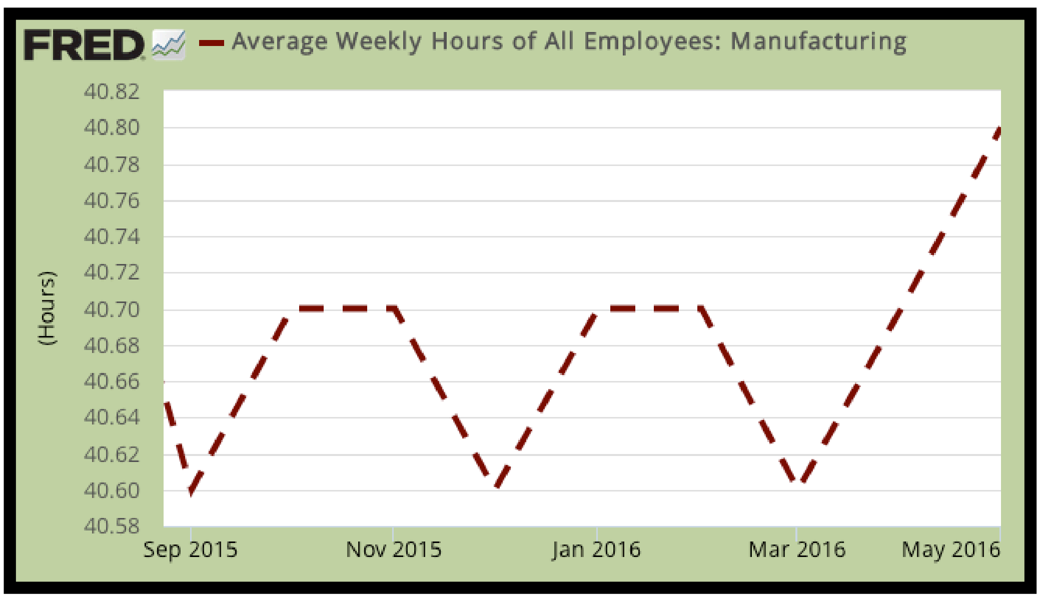
- The index of average weekly hours of all employees in May rose to 105.2, highest since Jan.
- The average workweek in manufacturing actually increased to 0.1 hour to 40.8 hours.
- Average hourly earnings was unchanged at 2.5% over the year. (Yet better than Feb & March)

The point here is that when there is an abundance of recent macro indicators showing an economy picking up momentum --- and then suddenly followed by a terribly disappointing jobs report, one has to stand back and take a more holistic view of the global economic and political backdrop.

The reason is that any decision by business leaders deploy capital and expand payrolls is based on the economic outlook and the expected minimum return on such investments (known as the hurdle rate). So when confronted with a future that is so cloudy on so many important issues---- BREXIT, the US Presidential race, the shape of the next Congress and Supreme Court ---- it is not a stretch to conclude that US employers are now turning hypercautious about hiring, especially given the lasting scars of the Great Recession.

For similar reasons we have ruled out a Fed interest rate hike this month and in July. Though Fed officials desperately want to continue normalizing rates, this is simply not the right economic or political climate to do so. There's an outside chance they may raise in September in the (unlikely) event payrolls rebound sharply this summer. Otherwise, their next opportunity will be in early 2017.





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