

# THE ECONOMIC OUTLOOK GROUP



475 Wall Street  
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300  
[www.economicoutlookgroup.com](http://www.economicoutlookgroup.com)

## ECONOMIC TALKING POINTS

Bernard Baumohl  
Chief Global Economist

March 10, 2017

### Growing Undercurrent of Angst Accompanies A Strong Employment Report

The Trump economic era officially kicked off with a strong jobs report. Finally the President has something worth tweeting about!

Not only are the headline figures impressive, with payrolls up 235,000 last month (following a revised increase of 238,000 in January), but hiring in the private sector has been steadily accelerating. The first two months of the year saw the fastest jump in corporate payrolls since last summer.

Evidently the prospect of substantial corporate tax cuts, greater infrastructure spending and less burdensome regulations have encouraged employers to beef up their payrolls with higher pay in the process. Average hourly earnings jumped by 2.8% in February, more than a full percentage point above the Fed's favorite inflation measure.

At the same time, the jobless rate slipped to 4.7%, largely because an additional 447,000 Americans found work, which exceeded the 340,000 that entered the labor force last month, according to the Household survey.

Chart 1. Unemployment rate, seasonally adjusted, February 2015 – February 2017

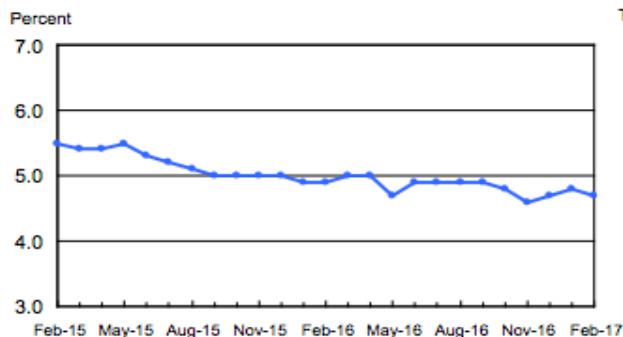
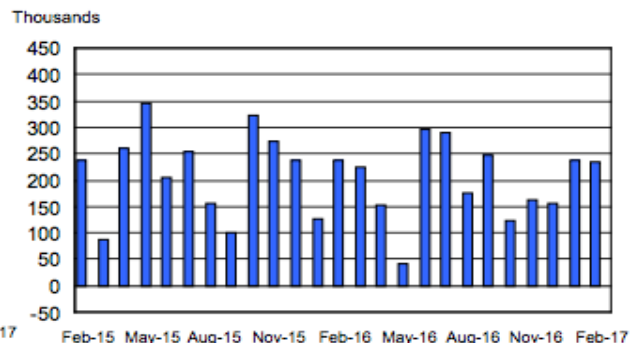


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, February 2015 – February 2017



With more people at work or actively seeking employment, the labor force participation rate climbed to 63%, the highest since last March. Even more impressive is the proportion of the population that is currently at work. The employment – population ratio now stands at 60%, the most in 8 years!!

And there are a slew of other data points confirming the underlying strength in the job market. The number of Americans stuck with part time work because they could not find suitable full time employment continues to shrink. The median number of weeks the unemployed are out of work has fallen to 10, the fewest since August 2008. Even the broadest measure of unemployment, known as U-6, the rate fell to 9.2%, the lowest since April 2008.

All key industries, except for retail, added to their payrolls, including construction (up 58,000), professional and business services (37,000), education and health services (62,000), leisure and hospitality (26,000). Retail employment took a beating as department stores like Macy's, JC Penney and Sears shut down more stores.

A few of our “must-watch” indicators, such as employment at day care centers jumped by 1,700. Such centers are required by law to hire new caregivers as more parents drop off their children before heading to work. Another key metric is the number of truckers hired to help transport goods around the country. It was up another 10,600 in February, the biggest monthly increase in 5 years!

No one can deny the solid improvement in the labor market in recent months, and it comes after a string of other unambiguously upbeat indicators. They include the best consumer and business confidence numbers in more than a decade, a record shattering stock market, strong consumer spending --- and last but certainly not least--- one of our favorite leading indicators, the Chemical Activity Barometer, which gauges production at the earliest stage of the supply chain process and is now climbing at the fastest 12-month pace in 7 years!

It's all great news to be sure.

But we also have to add that more of our clients share a growing undercurrent of concern that perhaps business leaders and investors have gotten a bit ahead of themselves.

While we certainly expect the Fed to hike rates next week, something we have been predicting since January, where monetary policy goes next will depend on two factors: First, what kind of tax policy will emerge from Congress and when? And two, will investors respond favorably to it? A severely watered down tax bill might so disappoint Americans that we could see a sharp reversal in stock prices, and with it plummeting confidence levels.

What's troubling too is that the GOP looks like its forming a circular firing squad as one group of deficit-hawk Republicans try they shoot down policies crafted by mainstream Republicans on a plan to replace Obamacare. Moreover, there is a major rift emerging within the GOP on whether to have a border adjustment tax at all.

One is reminded of an old Reagan line: “Sometimes right hand doesn't know that the extreme right hand is doing.”

And let's not forget that on top of it all are the numerous political, legal and geopolitical dangers now swirling around the White House.

It all raises the question whether Americans have become so intoxicated by the fumes that a large fiscal stimulus will soon materialize, that they're recklessly brushing off the many other risks that now loom large, risks that can easily and suddenly alter the direction of the economy.

### United States

	I 2016	II 2016	III 2016	IV 2016	I 2017	II 2017	III 2017	IV 2017	I 2018	II 2018	III 2018	IV 2018
<b>Real Gross Domestic Product (GDP):</b>												
%	0.8	1.4	3.5	1.9	2.4	2.8	2.5	2.7	2.5	2.7	3.0	2.7
<b>Personal Consumption Expenditures:</b>												
PCE	1.6	4.3	3.0	3.0	3.2	3.6	2.8	2.6	2.6	3.5	3.3	2.5
<b>Inflation, end of period, year-over-year:</b>												
CPI %	0.9	1.0	1.5	2.1	2.3	2.5	2.6	2.5	2.5	2.6	2.6	2.8
<b>Unemployment Rate (end of period):</b>												
%	5.0	4.9	4.9	4.7	4.8	4.9	4.9	5.0	4.8	4.7	4.6	4.5
<b>Non-farm Payrolls, monthly avg. thousand:</b>												
	196	164	239	148	223	240	185	190	200	175	150	155
<b>Treasury 10-yr Note Yield % (end of period)</b>												
	1.78	1.49	1.60	2.45	2.60	2.50	2.36	2.70	3.10	3.15	3.15	3.20
<b>Federal funds rate % (end of period)</b>												
	0.38	0.38	0.38	0.63	0.63	0.88	0.88	1.13	1.38	1.63	1.88	2.13

### GDP Growth - Global Economy

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.5	2.7
Eurozone	2.6	0.6	-4.1	1.7	1.4	-0.9	-0.3	1.2	2.0	1.7	1.3	1.7
United Kingdom	3.1	0.6	-5.2	1.7	0.7	0.3	1.8	2.9	2.2	2.0	1.2	1.5
Japan	2.1	-0.7	-5.4	4.6	-0.4	1.6	1.5	-0.1	1.1	1.2	1.2	1.3
Canada	2.7	0.7	-2.8	3.1	3.1	1.7	2.2	2.5	1.2	1.3	2.0	2.5
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	7.4	7.8	7.3	7.2	7.8
China	14.2	9.6	9.2	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.3	6.4
Brazil	5.7	5.1	-0.3	7.5	2.7	0.9	2.3	0.1	-3.8	-3.6	0.2	2.2
Mexico	3.3	1.4	-4.7	5.2	4.0	3.9	1.4	2.3	2.5	2.1	1.8	2.4
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.6	2.5	2.3	2.5	2.8
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	0.6	-3.7	-0.2	1.1	1.8
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	3.0	2.6	2.4	2.8	3.2