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ECONOMIC TALKING POINTS

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March's weak job numbers: Could they represent the first signs of disillusionment with Washington politics?

Many will no doubt blame March's surprisingly weak payroll numbers on stormy winter weather. That could be one explanation for the underwhelming 98,000 increase in total payrolls.

Frankly, we don't buy it. There is a long history of late snowstorms in March and the seasonal adjustment factors should have corrected for it. The consensus forecast ranged from 125,000to 202,000 --- and these estimates were mostly made after the storms. Others point to the much stronger showing in the household survey where 472,000 more Americans claimed to have found employment. But that number has credibility issues too, since the BLS points out in the same report this figure could be off by plus or minus 500,000. So there's not much to draw on here given the government's huge statistical waffle.

No, we believe something more fundamental is going on here. A better understanding of what has occurred in the labor markets can be seen by standing back a bit and incorporating both the economic and political dynamics at work lately.

Our assessment is that employers are sobering up to the fact that both the timing and size of the fiscal stimulus will be quite disappointing. If you set aside for a moment all those soaring confidence surveys taken of business leaders and investors, there is another sentiment that has quietly been bubbling up. Based on our own

contacts with business leaders and money managers, we have noticed a growing undercurrent of concern about the bizarre political machinations in Washington and that these concerns have generated enough doubt about the economic outlook that companies are reviewing the need to rush out and hire more workers.

In other words, March could represent an inflection point where corporate managers and investors begin to place more emphasis on the deep political turmoil in the nation's capital --- and less on the sugary promises of massive tax cuts, huge increases in infrastructure spending and of regulatory amputation made shortly after the GOP successfully grabbed control of the White House and Congress.

March's surprisingly soft jobs report and the combined downward revision of 38,000 in payrolls for both January and February reflect, we believe, business leaders directing their concerns at Washington, in effect saying: "OK, it's show me time."

You may ask how we can extrapolate such sentiment from the latest statistical data? It is, we admit, never easy to prove a shift so early in the turning process, but we begin with the hard brake in hiring in the private sector last month of only 89,000 people. Could it just be weather-related? Possibly. But we've had blizzards in March before, yet this particular figure was the worst showing for that month since the Great Recession.

Average weekly hours worked in the private sector also appear to be winding down. Both February and March scaled back hours worked to 34.3, dropping from 34.6 at the start of last year. The hours worked was also the worst reading for March in 7 years!

Here's another troubling turn of events. After half a year of steady declines in the number of weeks people are stuck out of work, the situation in March suddenly worsened. The average duration unemployed rose to 25.3 weeks (from February's 25.1), and the median rose to 10.3 weeks (February's was 10).

Nor is it just the employment report that led us to the conclusion that businesses are becoming more skeptical whether Washington can come through with a large fiscal stimulus package. Several other recent economic indicators point to an economy that has begun to shift into lower gear.

Both the manufacturing and nonmanufacturing PMI numbers decelerated last month. The ISM purchasing managers index for manufacturing slipped to 57.2, from 57.7. But Markit Economics' final take on manufacturing activity showed a drop to 53.3 last month, which happens to be the lowest in six months.

The much larger service sector also lost steam and eased back to 55.2 in March, from 57.6, according to ISM. Meanwhile Markit's PMI figure on service sector activity dropped to 52.8, also the lowest in half a year.

And did anyone notice how the weekly claims for unemployment benefits veered back up? Applications for jobless aid the last two weeks were at their highest of the year.

Our main argument here is that we may be in the midst of a transition from optimism to growing skepticism. Investors and business leaders were initially so intoxicated at the prospect of Washington finally passing tax reform and slashing regulations that it led major stock market indices to shatter one record high after another. At the same time, businesses were gearing up capital spending plans in anticipation of a much more robust economy, thanks to bold new policies from a rejuvenated Republican party.

….And now, less than 100 days into the new Administration, we see little has fundamentally changed in Washington. Policy uncertainty remains as high as ever. The failure to replace the Affordable Car Act only highlighted the fractional divide within the GOP. The effort to pass tax reform looks just as problematic. Moreover, the partisan chasm between Democrats and Republicans reached a historic level this week when the Senate Republican leadership invoked the "nuclear option" to confirm Neil Gorsuch to the Supreme Court.

Hovering over all are the numerous Congressional and Justice Department investigations on whether key individuals inside the Trump presidential campaign committed treasonable acts by colluding with Russians to influence the last election.

Some money managers and CEOs are even pondering the longevity of the Trump administration itself!

It is against this troubled political backdrop that we now have to assess the most likely path for the economy. Failure to produce significant tax cuts and regulatory reform would likely lead to a capitulation in the stock market. So would a White House that is paralyzed by numerous investigations. A correction in equity prices will affect consumer confidence and pare back their spending. It's unlikely we'll see businesses ramp up capital expenditures in that scenario too. If that's the case, the Federal Reserve could lift the fed funds rate just once more this year, rather than the 2 or 3 times often stated by officials there.

Perhaps the bond market already senses a future with much slower economic growth this year and next. How else to explain the fact that the yield on 10 year Treasury debt is just 2.34% today?

Our expectation is that in the coming weeks, we'll see both economic and stock market indicators weaken as more people grudgingly realize how little Washington may ultimately accomplish---even with the Republican Party in control.

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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
Real Gross Domestic Product (GDP):												
%	0.8	1.4	3.5	2.1	1.6	2.6	2.5	2.7	2.5	2.7	3.0	2.7
Personal Consumption Expenditures:												
PCE	1.6	4.3	3.0	3.5	2.8	3.6	2.8	2.6	2.6	3.5	3.3	2.5
Inflation, end of period, year-over-year:												
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
Unemployment Rate (end of period):												
%	5.0	4.9	4.9	4.7	4.5	4.9	4.9	5.0	4.8	4.7	4.6	4.5
Non-farm Payrolls, monthly avg. thousand:												
	196	164	239	148	178	178	185	190	200	175	150	155
Treasury 10-yr Note Yield % (end of period)												
	1.78	1.49	1.60	2.45	2.39	2.40	2.36	2.70	3.10	3.15	3.15	3.20
Federal funds rate % (end of period)												
	0.38	0.38	0.38	0.63	0.88	1.13	1.13	1.38	1.63	1.88	2.13	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	2.3	2.6
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	1.0	1.2	1.3
Canada	2.7	0.7	-2.8	3.1	3.1	1.7	2.2	2.5	1.2	1.4	2.0	2.5
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	7.4	7.8	7.2	7.3	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	2.2	1.8	2.4
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.6	2.5	2.5	2.5	2.8
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	0.6	-3.7	-0.8	0.7	1.8
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	3.0	2.6	2.5	2.8	3.2