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ECONOMIC TALKING POINTS

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Ditch December's Payroll Number.
The Economy's Momentum Shows No Sign of Ebbing

When multiple economic indicators tell you business activity is roaring, how much weight do you give to one data point, albeit an important one, that greatly underperforms?

The metric that underperformed this time was payroll growth for December. But the answer to the first question remains the same: Don't fall for the mistake of re-assessing the entire economic outlook because of a single contrary indicator. Keep the broader perspective in mind and

Of course, if you're a short term trader who took the wrong position and expected a sharp jump in payrolls, then you jump into action to mitigate your losses. But if you're a CEO, a policymaker or just an average worker, you should essentially dismiss the soft 148,000 increase in December total nonfarm payrolls for last month.

Here's why. There has been a flurry of unambiguously upbeat reports on the economy the last few weeks. Housing, manufacturing, construction spending, and consumer expenditures --- all point to an economy that ran close to a 3% pace the final three months of last year.

So why such a soft number on job creation? It's really no mystery. The employment data is simply reverting back to the mean.

Remember, the severe storms the South suffered last fall caused September's hiring to plunge to just 38,000; but it bounced back with a vengeance the next two months as employers boosted payrolls by 211,000 in October and another 252,000 in November. Even with December's low figure, the 3-month payroll average turned out to be an impressive 204,000, easily making the final three months the strongest quarter for job creation in the year. Moreover, the labor force participation rate (62.7%), employment-population ratio (60.1%), average weekly hours worked (34.5%) and the unemployment rate (4.1%) were all unchanged.

Yet there are several data points in the jobs report that should be noted because they reaffirm important pockets of strength in the economy that have been identified by other indicators. For instance, construction payrolls jumped by 30,000, and manufacturing saw an increase 25,000 in hiring. Employment agencies themselves hired 10,800 people last month. The amount of time those unemployed were out of work in December fell to an average of 23.6 weeks (the fewest since May 2009), and a median of 9.1 weeks (least since June 2008).

And while average hourly earnings growth still showed no sign of breaking out of its stubborn year-long range between 2.4% to 2.8%, last month's yearly increase of 2.5% was still likely to be greater than inflation, which means households would continue to enjoy gains in purchasing power.

One particular interesting trend could point to a re-emergence of much-needed productivity growth. Total hiring came to 2.06 million in 2017, the fewest in seven years. Yet economic activity last year was far more robust than in 2016. US GDP is projected to have expanded by 2.4% in 2017, compared with a 1.5% increase the previous year. This combination of greater output in 2017, but with fewer new workers is a sign that firms are finally investing more in modernizing and updating their factories and offices. That would improve the productivity outlook and allow the US economy to grow faster this year without significantly heating up inflation.

Adding more support to the strength in the economy was another indicator out this morning: the $50.5 billion trade deficit the US recorded in November, the largest since 2012. While that may subtract a little from GDP growth, the bigger point is that domestic demand was so strong it pulled in a record amount of imports. At the same, time the US continues to benefit from the impressive economic recovery abroad since exports also jumped to all time highs.

The bottom line is that while payrolls came in below expectations last month, there is considerably more evidence that suggests the economy has forcefully entered 2018 with the kind of momentum that shows no sign of ebbing anytime soon.

- Actual
- Forecast

United States

	I 2017	II 2017	III 2017	IV 2017	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019
Real Gross Domestic Product (GDP):												
%	1.2	3.1	3.2	2.8	2.4	3.2	3.0	2.5	1.9	2.5	2.6	2.8
Personal Consumption Expenditures:												
PCE %	1.9	3.3	2.2	3.6	2.4	3.1	2.6	2.4	2.2	3.1	2.9	2.7
Inflation, end of period, year-over-year:												
CPI %	2.4	1.6	2.2	1.7	1.8	2.0	2.1	2.3	2.4	2.4	2.5	2.7
Unemployment Rate (end of period):												
%	4.5	4.4	4.2	4.1	4.2	3.8	3.8	3.9	4.2	4.4	4.4	4.5
Non-farm Payrolls, monthly avg. thousand:												
	166	187	128	204	190	185	160	160	150	145	140	140
Treasury 10-yr Note Yield % (end of period):												
	2.39	2.30	2.33	2.41	2.45	2.55	2.85	3.10	3.35	3.38	3.40	3.40
Federal funds rate % (end of period):												
	0.88	1.13	1.13	1.38	1.63	1.63	1.88	2.13	2.38	2.63	2.63	2.63

GDP Growth - Global Economy

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
US	-2.8	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.4	2.8	2.4
Eurozone	-4.1	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.3	2.4	1.7
United Kingdom	-5.2	1.7	0.7	0.3	1.8	2.9	2.2	1.8	1.4	1.0	1.4
Japan	-5.4	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.6	1.9	0.9
Canada	-2.8	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.2	2.7	2.5
India	6.3	8.4	8.6	6.7	4.9	7.4	7.9	7.1	6.8	7.5	7.5
China	9.2	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.3	6.2
Brazil	-0.3	7.5	2.7	0.9	2.3	0.1	-3.8	-3.6	0.9	2.3	2.8
Mexico	-4.7	5.2	4.0	3.9	1.4	2.3	2.7	2.0	2.1	2.0	2.5
Australia	1.2	2.8	2.6	3.6	2.4	2.6	2.4	2.4	2.7	2.8	3.0
Russia	-7.9	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.4	2.1	2.0
World	-1.9	4.2	3.0	2.6	2.9	3.0	2.7	2.4	3.5	3.7	3.9

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