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ECONOMIC TALKING POINTS

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A Roaring Jobs Report: But Is The Economy Really Be That Bullet Proof?

We are witnessing a marathon economic expansion in the US, one that simply refuses to end despite being buffeted by a trade war, higher tariffs, weak foreign growth and a deeply contentious political climate in Washington.

How else to explain November's 266,000 surge in payrolls? It was not just impressive, this was a blowout number that stunned many analysts. Virtually every industry saw robust hiring last month, including manufacturing (by an amount even greater than the return of workers after the GM strike), leisure and hospitality, retail, transportation and warehousing. Moreover, the government substantially revised up payroll employment in September and October by a combined 41,000. Even the unemployment rate dropped back to its 50 year low of 3.5%.

Chart 1. Unemployment rate, seasonally adjusted, November 2017 – November 2019

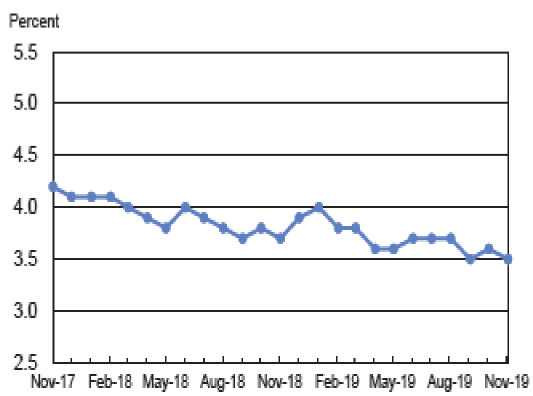
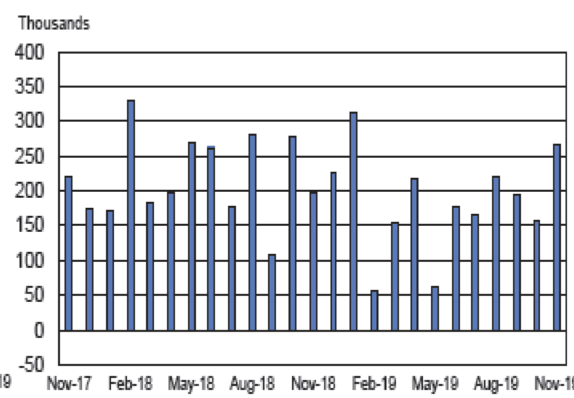


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, November 2017 – November 2019



Perhaps one of the most impressive data points in the report was the diffusion index. It compares the percentage of firms in the private sector that experienced an increase in employment versus those that cut payrolls. Anything above 50 indicates a net increase in hiring. November's percentage leaped up to 61.6 last month, the highest all year!

It's all very impressive, even unprecedented for an economy that's well into its 11th year of uninterrupted growth.

However…and we hate to spoil the party… there is a lingering sense that something is amiss with this employment report. For example, in stark contrast to the tremendous payroll numbers, the Labor Department household survey showed dramatically different results. Total employment rose just 83,000, the weakest increase since last April. The only reason the jobless rate fell to 3.5% was because the labor force grew a paltry 40,000. It averaged 338,000 a month the prior three months.

Many analysts may be tempted to utterly dismiss those low household numbers and favor the stronger payroll series. But we don't advise doing so.

For one thing, total private average hourly earnings slipped 0.1% last month to 3.1%. The same 0.1% decline occurred for production and non-supervisory workers. If the labor market was indeed getting significantly tighter, as the payroll numbers suggest, there would be more upward pressure on wages. Second, the jump in payrolls seems excessive against the backdrop of other important economic indicators released this week, like the anemic ADP Employment Report, the weakness in ISM manufacturing and non-manufacturing and the decline in construction spending.

More broadly, one has to wonder whether we even fully understand the dynamics of the current expansion. Has the structure of the economy changed so much that it can still somehow produce a monthly average of 205,000 new jobs over the last three months even when GDP is growing barely at 2%?

If you look at the totality of major economic indicators and attempt to connect the dots, one is hard pressed to form any firm conclusion about the current strength of the economy, let alone what may happen in 2020. It's yet another reason we believe the Federal Reserve will stand pat in 2020.

Having said that, our view remains that the economy will avoid an economic downturn in 2020, with GDP growth ranging between 1.7% to 2.2% throughout the year. That modest pace, along with rising domestic political tensions and heightened geopolitical risks, suggest November's surprise jump in payrolls will prove to be an anomaly.

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United States

	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021
Real Gross Domestic Product (GDP):																
%	2.5	3.5	2.9	1.1	3.1	2.0	2.1	2.2	2.0	2.7	2.1	2.3	2.2	2.7	2.6	2.8
Personal Consumption Expenditures:																
PCE %	1.7	4.0	3.5	1.4	1.1	4.6	2.9	1.8	2.2	3.0	1.9	3.4	2.7	3.8	3.0	4.1
Inflation, end of period, year-over-year:																
CPI %	2.4	2.9	2.3	1.9	1.9	1.6	1.7	1.8	1.9	2.0	2.0	2.2	2.5	2.7	2.7	2.8
Unemployment Rate (end of period):																
%	4.1	4.0	3.7	3.9	3.8	3.7	3.5	3.5	3.8	3.9	4.0	4.1	4.1	3.9	3.9	3.7
Non-farm Payrolls, monthly avg. thousand:																
	228	243	189	233	174	152	188	155	140	140	125	125	135	155	160	165
Treasury 10-yr Note Yield % (end of period):																
	2.74	2.85	3.06	2.76	2.42	2.00	1.65	1.80	1.85	1.70	2.00	2.25	2.70	3.10	3.80	4.10
Federal funds rate % (end of period):																
	1.63	1.88	2.13	2.38	2.38	2.38	1.88	1.63	1.63	1.63	1.63	1.63	2.13	2.38	2.63	2.63

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.2	2.3	2.6
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	0.8	1.2	1.8
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.4	1.0	1.3	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.9	0.9	1.7
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	1.5	1.1	2.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	6.5	6.6	7.3
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	5.9	5.7	5.8
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	1.1	0.5	1.3	1.9
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	0.2	1.0	2.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	2.0	1.8	2.6
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.5	1.4	2.2
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.2	3.0	2.6	2.8	3.2