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Jobbed: Markets Suffer Worst Start to Year on Record; What About Payrolls?

By Ben Levisohn - Jan. 8, 2016

A blockbuster payrolls report couldn't prevent the worst start of the year for stocks in history.

The S&P 500 fell 1.1% to 1,922.03 today to finish the week off 6%, while the Dow Jones Industrial Average dropped 167.65 points, or 1%, to 16,346.45 to finish the week down 6.2%, or a whopping 1,078.58 points. Both the Dow and the S&P 500 it was the worst opening week in the history of the indexes,

The Nasdaq Composite declined 1% to 4,643.63 to finish the week off 7.3%, trumped only by the 8% plunge to begin 2008.

Let's get one thing straight: The jobs report was really good. The U.S. added 292,000 jobs in December, well above the 200,000 expected. The unemployment rate, meanwhile, remained at 5% mainly due to new additions to the workforce. So why did the market get spooked? One possibility: The lack of wage growth. Without wages going up, how can the economy truly be getting better? The **Economic Outlook Group's Bernard Baumohl** thinks wages are growing much faster than they look:

> Look, first of all, average hourly earnings has in fact been creeping up during the year, to 2.5% annually in December. True, it doesn't merit opening up Champagne bottles, but it is still a distinct improvement from 2014, when AHE increased just 1.8%. So should do we make of all this?
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> When discussing pay, it's also important to contrast it with inflation. Headline CPI has been rising at a 0.5% rate, which means the real average hourly earnings is up 2%. In other words, purchasing power is increasing. Not by much, but it's on the rise.

> Frankly, we have tended to downplay the value of average hourly earnings because this metric has some limitations as a measure of wage growth. Average hourly earnings are computed based on responses from 140,000 establishments who provide information on total pay, which then gets divided by hours worked. In contrast, the Bureau of Economic Analysis, which publishes the monthly report "Personal Income and Spending" uses this data from the BLS, but also takes into account other factors, such as the size of the working population. The result is a more comprehensive measure of wages and salaries, which the BEA said jumped 4.5% year-over-year.
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> Moreover, the BLS releases a much broader, but terribly dated report on wage growth every quarter known as the Quarterly Census on Employment and Wages. It noted that wages and salaries in the latest quarter (IIQ 2015) actually rose at a 5.8% rate! …
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> They key point here is that while average hourly earnings have become a politically sensitive indicator, it's not the most accurate precise and one should not view it as the defining one on pay increases.

Still, see a drop like this in the face of good news is more than a little concerning. So is the fact that investors appear to be acting in classic defensive fashion: The best performing sectors this week were Utilities (-0.4%), Consumer Staples (-2.9%), Telecommunications (-3%), and Healthcare (-5.6%), classic defensives all. Financials, meanwhile, have been getting killed ever since the Federal Reserve hiked interest rates in December, something I warned should be taken as a sign that the Yellen & Co. had made a mistake.

The only thing that gives comfort, really, is the economy–and that jobs report. I'll let Gluskin Sheff's David Rosenberg explain:

> Suffice it to say that the labour market — not the stock market which is facing a series of technical and valuation hurdles right now, not just fundamentals — is behaving as if the U.S. economy has graduated to a 3% growth economy. This does not buy you a strong stock market, but it does mean that there is no fundamental bear since this only happens when the economy moves into recession, which remains nothing more than fantasy land for the legions of bears out there.

And that will have to be enough for now.

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