CenterState
CORRESPONDENT DIVISION

Market Update

Economic News

May 3, 2019

The April jobs report met or beat on most expectations and provides back-to-back solid monthly results after weather–related weakness in February. Headline job growth was 263,000 versus 190,000 expected, while the unemployment rate dipped to 3.6% after two straight months at 3.8%. That dip, however, is a little suspect as the labor force participation rate fell two-tenths as well, thus, the unemployment rate drop in April may partially reverse in coming months. We discuss this in more detail below. Finally, wage gains rose 0.2% missing the 0.3% expectation and the YoY gain was 3.2% which missed the 3.3% forecast. While the wage gains missed forecasts, the YoY rate remains above 3% and that will keep the Fed on the lookout for demand-driven inflation.

In summary, it's a solid jobs report that builds on the March rebound after a somewhat soft February. That being said, the report isn't likely to alter the Fed's patient pause posture. That will come when wage gains start to push inflation readings from 1.6% closer to and above the 2.0% target, and that still remains elusive. That could be why Treasuries are rallying a bit off the report with the 2-year note yielding 2.33% and the 10-year note yielding 2.53%.

For the month, 263,000 jobs were created which easily beat the 190,000 forecast and represents two solid months of job gains after a soft winter-related February. In addition, the prior two months were revised upward adding another 16,000 to payrolls. Over the past year, average monthly job gain are 216,000 so an above-trend result in April and certainly more than enough to keep up with new entrants to the labor force.

Away from the headline job growth numbers wage gains missed on the month-over-month and yearly expectations which takes a little steam out of the headline jobs number beat. Average hourly earnings rose 0.2% for the month versus 0.3% expected, while year-over-year earnings rose 3.2%, matching the March print but missing the 3.3% expectation. The 3.2% YoY gain is off the 3.4% February high for this cycle. While the headline job growth is strong, the wage gains are modest enough to not alter the Fed's patient pause approach to rates but it does certainly dim odds again for the next move being a rate cut.

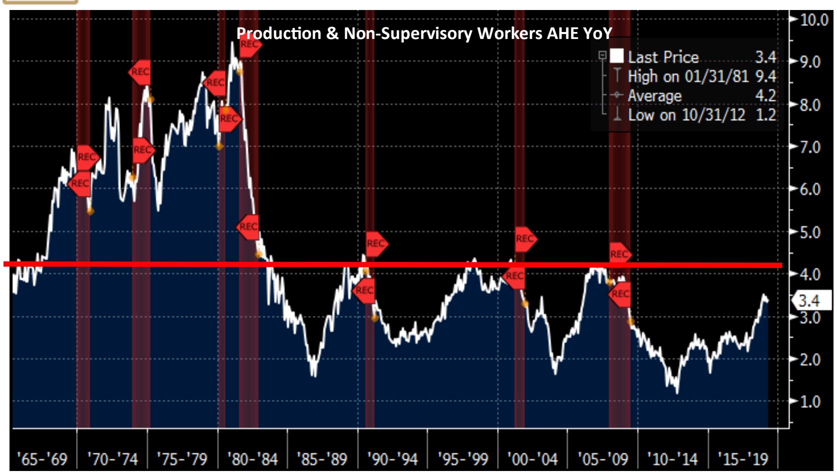
After two straight months at 3.8% the unemployment rate dipped to 3.6% which beat the 3.8% forecast. The 2/10ths drop is a new cycle low and came from a 387,000 decrease in the ranks of the unemployed. However, the Household Survey also saw a drop in the labor force of 490,000 and a decrease of 103,000 in employed persons so the Fed is likely to view all these numbers with a grain of salt given the headline job gains in the less volatile Establishment Survey. It may be that we see a bit of a rebound in the unemployment rate in the following months as the volatility of April is smoothed out. That being said, even adding a couple tenths back to the unemployment rate it is still well below the Fed's latest 4.3% equilibrium estimate (which is looking too high—expect further cuts to that estimate at the June meeting).

The broader underemployment rate (unemployed plus part-timers seeking full-time work, plus the marginally attached divided by the labor force) which was buffeted early in the year from government shutdown-related noise has settled in at 7.3% for the second consecutive month and represents the low for this cycle. While unemployed persons decreased 387,000, part-time workers increased by 155,000 and 60,000 were added to those marginally attached to the work force (those willing to work but not actively looking). The slightly smaller numerator was met with a slightly smaller denominator as the labor force decreased by 490,000 and that decrease kept the underemployment rate unchanged. As mentioned, the 7.3% rate is a cycle low, and below pre-recession levels, which is another indication that we're at, or very near, full employment.

The labor force participation rate (labor force divided by civilian population) fell two-tenths to 62.8% and is off the cycle high of 63.2% set back in February. The decrease was driven by the aforementioned 490,000 drop in the labor force while the civilian population rose by 156,000. While the current rate is fairly close to the cycle high, the rate still pales in comparison to the 66% level that prevailed pre-crisis but the 62.7% to 63.2% participation rate range over the past year appears to be the new full employment normal given the aging of the working population and slowing population gains.

In summary, this release is another solid employment report but it's not likely to move the Fed off it's current patient pause stance. The Fed will be more focused on watching whether wage gains start to filter into higher inflation readings. If that happens and inflation starts to press against the 2% target expect the dovish stance to shift to a hawkish position. And while this report by itself won't force a hawkish shift at the Fed it does dim odds further that a rate cut will be the next move.

Average Hourly Earnings Takes a Small Dip



Average hourly earnings has become the most important metric in the monthly employment reports. With the unemployment rate well below the Fed's long-run equilibrium rate of 4.3%, wage gains rose 0.2% in April missing the 0.3% forecast while the YoY print at 3.2% missed the 3.3% forecast. The 3.4% rate for production and non-supervisory workers is below the 50-year average of 4.2% as shown in the chart. The trend in above 3% prints will keep the Fed's on alert for demand-driven inflation which so far has been elusive. If inflation starts to rise off increasing wage and job gains expect the Fed to revert to hawkish mode with rate hikes a possibility later this year.

Market Rates

Treasury Curve	Today	Chg Last wk.	LIBOR Rates	Today	Chg Last wk.	FF/Prime	Rate	Swap Rates	Rate
3 Month	2.42%	UNCH	1 Mo LIBOR	2.48%	-0.01%	FF Target Rate	2.25%-2.50%	3 Year	2.383%
6 Month	2.45%	UNCH	3 Mo LIBOR	2.58%	-0.01%	Prime Rate	5.50%	5 Year	2.377%
2 Year	2.33%	-0.05%	6 Mo LIBOR	2.61%	-0.01%	IOER	2.35%	10 Year	2.519%
10 Year	2.53%	+0.03%	12 Mo LIBOR	2.71%	-0.01%	SOFR	2.50%		