A PEEK AT YELLEN'S LABOR MARKET DASHBOARD HIGHLIGHTS FED CONCERNS

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As the market continues to digest stronger U.S. economic data, investors continue to grapple with the timing and prospect of rising interest rates. As highlighted in the Federal Reserve's (Fed) most recent announcement,[1] the Federal Open Market Committee is focusing a great deal of attention on aspects of the labor market beyond the headline payroll numbers and unemployment rate. In addition to limited wage growth and uncertainty in the housing market, the significant underutilization of labor has been positioned as a key factor in its rationale for maintaining current monetary policy. In previous testimony, Fed chair Janet Yellen has referred to several indicators included in her labor market dashboard.[2] In this piece, we attempt to re-create the labor market dashboard and assess the progress the economy has made post-financial crisis. While many indicators suggest a full recovery (or at least substantial progress), a few indicators hint at little progress from crisis lows. Notably, labor force participation rates continue to decline and underemployment has shown little improvement so far in the recovery. People leaving the workforce and the number of long-term unemployed cast doubt on the improvement indicated by the headline employment numbers. Wage growth also remains numbingly lethargic. **Currently, only 3 of 9 Factors Support a Return to Normalcy**

	Pre-Recession Average (2004–2007)	Worst Reading Post-Recession	Date	Previous Reading	Most Recent Reading	Date of Most Recent Reading	Recovery	% Recovery from Trough
Layoffs / Discharge Rate Layoffs and discharges as a percentage of paid employees	1.40%	2%	Apr-09	1.2%	1.2%	6/30/2014	ALL THE WAY	133%
Nonfarm Payrolls Monthly change in payrolls based on a survey of employers	161,800	-826,000	Mar-09	298,000	209,000	7/31/2014	ALL THE WAY	105%
Job Openings Rate Job openings as a share of the sum of job openings and paid employment	3.20%	1.60%	Jul-09	3.2%	3.3%	6/30/2014	ALL THE WAY	106%
Unemployment Rate Number of unemployed as a percentage of the labor force	5%	10%	Oct-09	6.1%	6.2%	7/31/2014	Most of the Way	78%
Quits Rate Workers who quit their job as a percentage of paid employees	2.10%	1.30%	Feb-10	1.8%	1.8%	6/30/2014	Part of the Way	63%
U–6 Underemployment Rate Includes part-time workers who want a full-time job and those not in the labor force who would take a job if one were available	8.80%	17.20%	Feb-10	12.1%	12.2%	7/31/2014	Part of the Way	61%
Hires rate Workers hired as a percentage of paid employees	3.80%	2.80%	Jun-09	3.4%	3.5%	6/30/2014	Part of the Way	60%
Long-term Unemployed Share Share of unemployed who have been out of work for 27 weeks or longer	19.10%	45.30%	Apr-10	32.8%	32.9%	7/31/2014	STILL FAR AWAY	48%
Labor Force Participation Rate Labor force as a percentage of the working-age civilian, noninstitutional population	66.10%	62.80%	Dec-13	62.9%	62.8%	7/31/2014	STILL FAR AWAY	3%

Sources: Bloomberg, FACTSET, as of 8/13/14.

In addition to a tick up in wages, anecdotal evidence and economic releases pointing to stabilization in labor force participation rates or a fall in the underemployment rate could improve the Fed's assessment of labor conditions. Monitoring these factors in upcoming Fed speeches, including the meeting in Jackson Hole August 21–23, could provide clearer insight into the path for future short-term rates in the United States. We believe that economic releases in the near future will provide the Fed with greater confidence in the domestic case for beginning to adjust monetary policy. As a result, interest rates will likely rise in anticipation of the Fed increasing short-term interest rates next year. As a result, we believe investors would be well served to reduce interest rate risk in their bond portfolios. As we have mentioned previously, we believe that the current risk/reward profile favors positions that will benefit from a rise in rates. With yields in most fixed income sectors near one-year lows, we believe that now may be a prudent time to reduce risk. [1]Board of Governors of the Federal Reserve System, Federal Open Market Committee. 7/30/14.http://www.federalreserve.gov/newsevents/press/monetary/20140730a.htm [2]Rich Miller and Michelle Jamrisko, "Yellen Jobs Dashboard Shows Rate Rise Far on Horizon: Economy," Bloomberg, 4/2/14.

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