U.S. ECON WATCH: STUBBING YOUR TOE

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There's nothing like a paltry 20,000 gain in total nonfarm payrolls to get market participants talking. That is exactly what happened on Friday, when the Bureau of Labor Statistics released the February jobs report. The debate is now fully engaged: Is this soft showing for payroll growth the beginning of a new, weaker trend, or is it merely like "stubbing your toe"?

Let's put things in perspective:

- Yes, this was the lowest payroll reading since September 2017 and was also 160,000 below consensus forecasts.
- *But* as I have mentioned before, don't focus on one month's worth of data. January's gain was placed at +311,000, so if you average the two together, you get a more respectable +166,000.
- With a jobless rate of 4% or less for the last 12 months, gains of +300,000 are likely not sustainable, but gains of +150,000 to +175,000 seem more realistic.
- What about the rest of the report? Not too shabby: the unemployment rate dropped 0.2 percentage points (pp) to 3.8%, and civilian employment was up +255,000. (This may have been shutdown-related, as government workers returned to their posts.)
- Wages, wages, wages…Average hourly earnings rose at an annual rate of +3.4%—their best performance since 2009—and have now posted a year-over-year gain with a "3" handle for seven months in a row.
- Federal Reserve (Fed) impact? Fed speak of late has tilted a bit more to the dovish side. Following the ECB's lead last week, if I were to choose what side of the policy debate the Fed will shift to at its March 20 FOMC meeting, I'm leaning dovish there as well.
- I'm expecting potential downward revisions to their growth outlook and a reduction in the number of rate hikes this year to one versus the two "blue dots" in December.
- I think that result is probably priced in to the U.S. Treasury market (UST). What's not priced in? The blue dots going to no rate hikes in 2019.
- I still think the Fed has one more rate hike in its system for 2019, but pushing the timing back to a 2H 2019 phenomenon.

Conclusion

On the whole, the evidence certainly does point toward a visible slowing in U.S. economic growth for Q1, with estimates around +1.0% to +1.5% appearing reasonable. However, I feel this could be the low point for growth in 2019. Not all of the recent econ news has been on the soft side: housing data, the ISM non-manufacturing index and the Markit Purchasing Managers' Index (PMI) have all had good showings. In addition, financial conditions, one of the Fed's noted concerns, have reversed course dramatically since the end of last year and have essentially returned to the levels that existed prior to the risk-off episode of Q4.

Unless otherwise noted, data source is Bloomberg, as of March 8, 2019.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Dovish : Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Blue dots : the midpoint target range/level of the FOMC participants' projections for the future Federal Funds Rate.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Purchasing Managers' Index (PMI) : An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction while 50 indicates no change.

Risk-on/risk-off : refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.