

US JANUARY EMPLOYMENT UPDATE

STILL STRONG MACRO PICTURE; RECESSION RISK STILL AT BAY

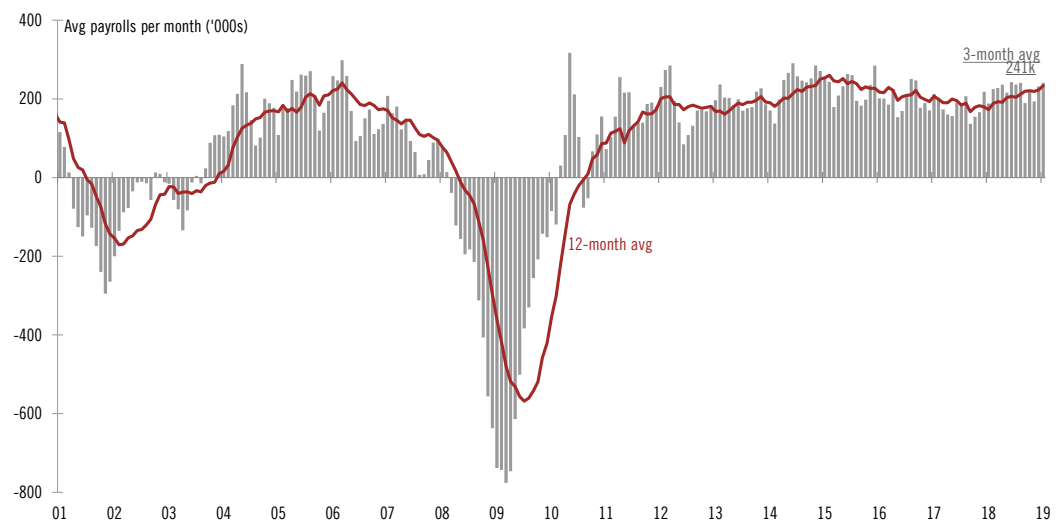
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SUMMARY

- > US employment rose by a solid 304,000 in January (+1.9% y-o-y), compared with 222,000 in December.
- > The three-month average was a healthy 241,000/month.
- > Meanwhile, the ISM manufacturing survey rose to a robust 56.6 in January from 54.3 in December.
- > Overall these two pieces of data suggest that US macro momentum remains strong and confirms our long-held view that the US business cycle is still rock solid despite the tightening in financial conditions in Q4 2018.
- > The ongoing strength in employment in construction (+4.7% y-o-y) and manufacturing (+2.1% y-o-y) further indicates that recession risks are low.
- > Wage growth continues to trend up. Average hourly earnings rose 3.2% y-o-y, after +3.3% y-o-y in December.
- > The employment report will do little to change the Fed's monetary policy stance, since it has already explicitly ruled out any rate move in the short term. Right now, the Fed is focused on inflation data, as well as developments abroad. Some Fed hawks could, however, be reinvigorated by this solid employment data.

CHART 1: THERE IS NO EROSION IN US LABOUR MARKET MOMENTUM



Source: PWM - AA&MR, Bureau of Labor Statistics (BLS), 1 February 2019

Shutdown? Trade war? Housing slump? No problem!

The January nonfarm payroll report once again surprised markets to the upside, with a solid 304,000 gain in employment. Month in, month out, the US labour market has remained consistently buoyant (the 12-month average gain in employment is 234,000/month) and is in stark contrast with the negative headlines in the press on items

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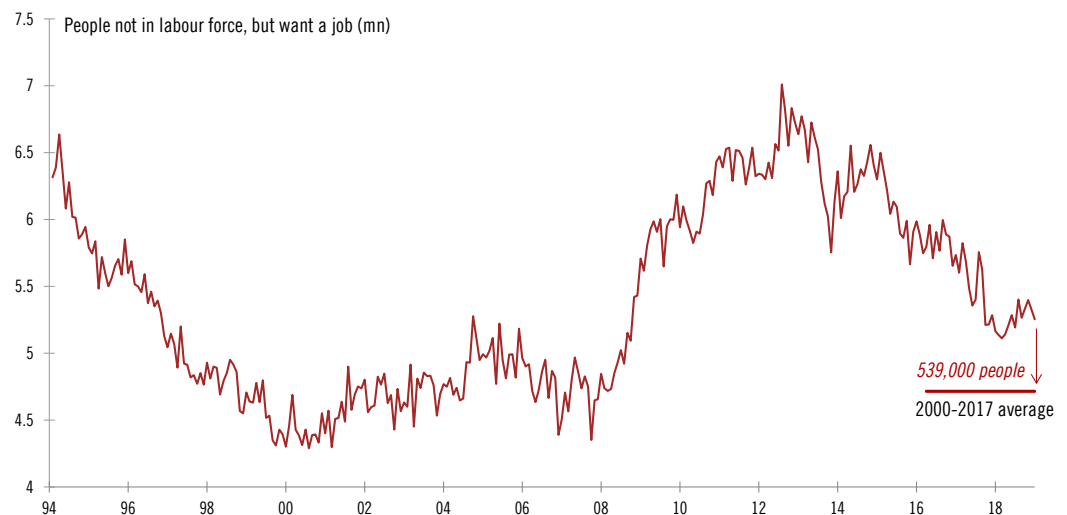
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such as the federal shutdown, the ongoing trade frictions with China, and the weak housing sector. There is little sign of any of this in the January employment report.

The latest jobs report is consistent with our view that the risk of a near-term US growth slump is limited, despite the advanced phase of the US business cycle, and the recent tightening in financial conditions (partly reversed in January). Most of the forward-looking signals in the employment report, including the ongoing strength in temporary employment (which we see as a good leading index for future job growth), remain positive. By easing financial conditions, recent Fed dovishness could prolong the business cycle further.

As an aside, we do not think the days of strong gains in employment are over since there is potential for those still out of the labour force to seek work. The number of those 'not in the labor force, but wanting a job' (according to the Bureau of Labor Statistics designation) remains above levels seen before the Global Financial Crisis (see *Chart 2*)

CHART 2: GOOD NEWS IS THAT WE HAVE NOT YET SEEN THE LIMITS OF THE LABOUR MARKET



Source: PWM-AA&MR, BLS, 1 February 2019

Another under-appreciated source of economic strength at the moment, we think, is the US consumer. We see positive signals on that front in the strength of retail employment, which rose by an average of 14,000/month in the three months to January, well above the average over the past year (2,000/month).

The payroll data was not really affected by the partial federal government shutdown, since federal workers who were laid off temporarily were still counted as 'employed' (since they received back pay for the period of the shutdown). The household survey, which uses a different methodology, considered the furloughed workers as temporarily unemployed—hence the slight rise in the unemployment rate to 4.0%, from 3.9% in December.

The job report does not change much from the Fed's perspective, since it has already *de facto* committed not to hike rates for a while (it remains "patient", according to its official guidance). Still, the ongoing health of the US economy would tend to suggest that Fed chairman Jerome Powell has been putting too much emphasis on bad news (the political

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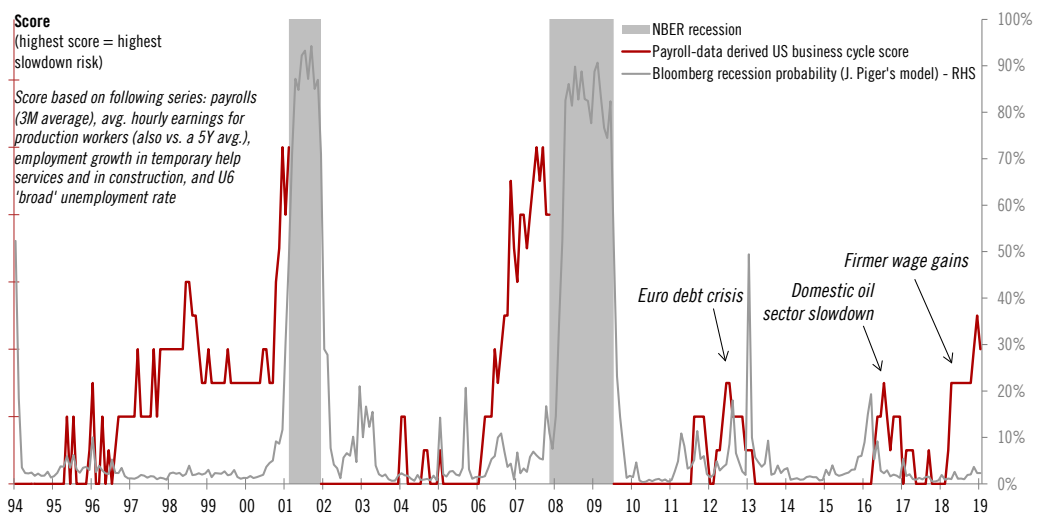
shenanigans in Washington, poor macro momentum abroad), and not enough on good news. While Chairman Powell did not mention wage growth at all at the latest press conference, hinting that he no longer trusts the Phillips curve, some Fed doves could start to become anxious that demand-led inflationary pressures will reawaken soon. The conclusion we would make is that some market participants expecting a near-term rate cut may perhaps have gotten ahead of themselves. The strength of US data (which contrasts with the picture elsewhere in the world) suggests a cut would be premature.

CHART 3: LABOUR FORCE PARTICIPATION RATE FOR THE 25-54 AGE BRACKET CONTINUES TO RISE



Source: PWM - AA&MR, BLS, 1 February 2019.

CHART 4: THE RISK OF RECESSION, WHILE RISING IN RECENT MONTHS, REMAINS MODERATE

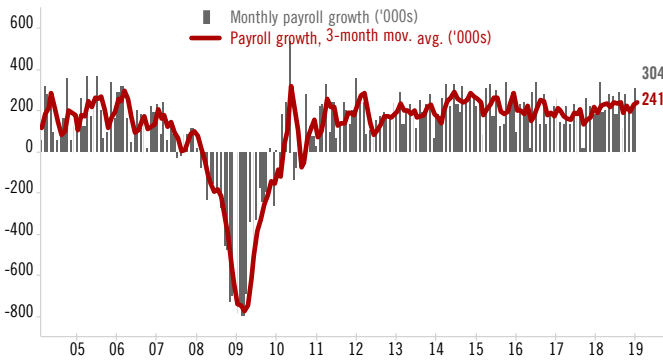


Source: PWM-AA&MR, BLS

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MONTHLY PAYROLL GROWTH AND 3-MONTH AVERAGE, '000S



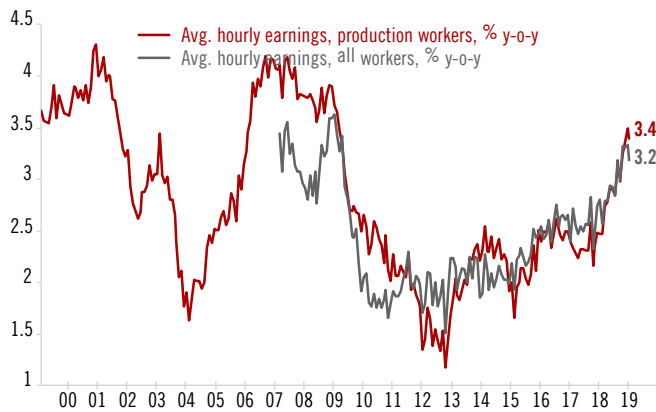
Source: PWM - AA&MR, Factset

UNEMPLOYMENT RATE, %



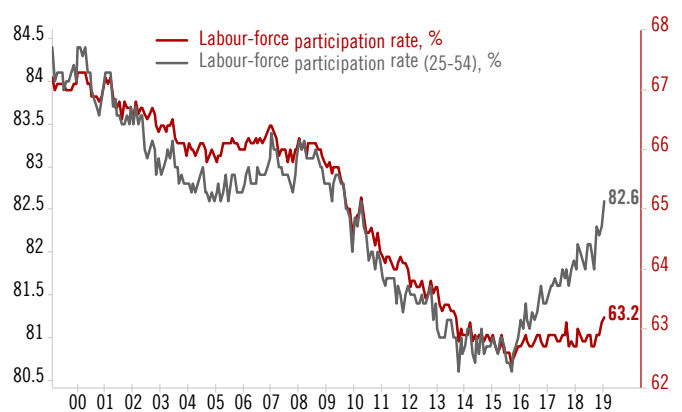
Source: PWM - AA&MR, Factset

AVERAGE HOURLY EARNINGS (WAGE GROWTH), % Y-O-Y



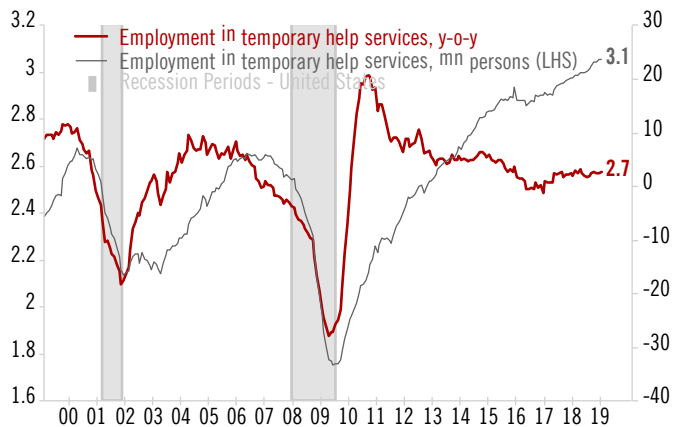
Source: PWM - AA&MR, Factset

LABOUR FORCE PARTICIPATION RATE, % (AND FOR 25-54 SEGMENT)



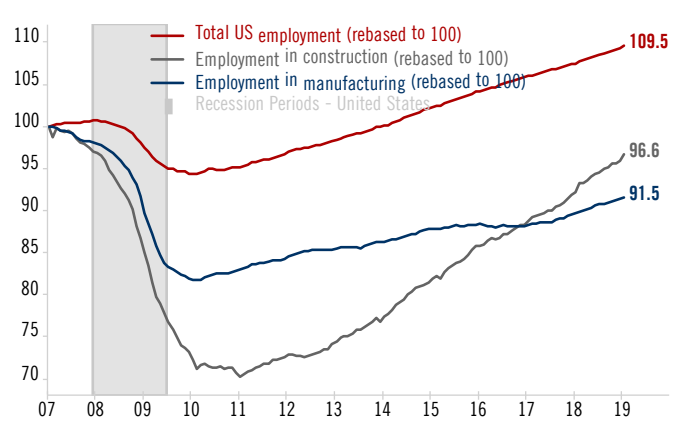
Source: PWM - AA&MR, Factset

TEMPORARY HELP SERVICES, MILLION (AND YOY)



Source: PWM - AA&MR, Factset

EMPLOYMENT IN MANUFACTURING AND CONSTRUCTION (BASE 100 IN 2007)



Source: PWM - AA&MR, Factset

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