LPL RESEARCH

WEEKLY ECONOMIC COMMENTARY

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AN ATTENTION-GRABBING JOBS REPORT

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KEY TAKEAWAYS

February's job growth was disappointing, but it followed the biggest two-month gain since 2016.

Job growth and modestly rising wages remain strengths of the current economy.

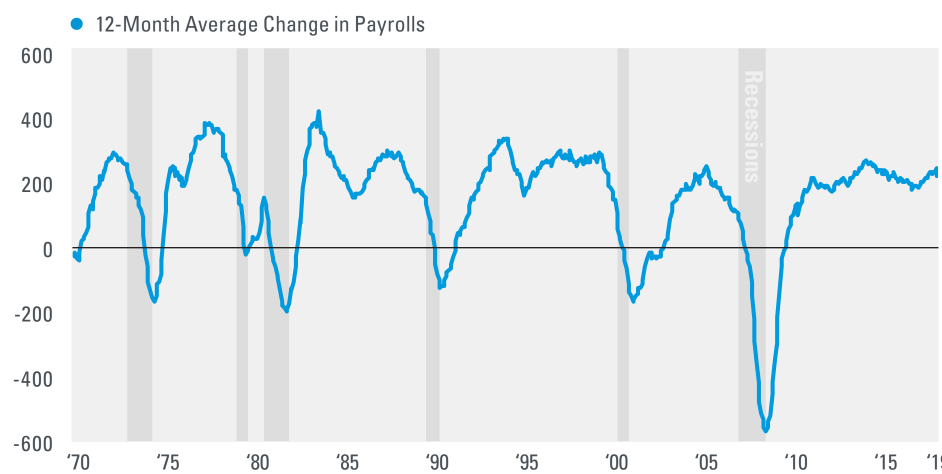
We don't see signs of February's jobs report impacting growth expectations or the Fed's path.

A disappointing February jobs report, released March 8, has increased concerns about a slowing U.S. economy among some market participants. However, we believe the report did little to change the overall economic picture. In fact, job growth and modestly rising wages remain strengths of the current economy and continue to support consumer activity. The economy added 20,000 jobs in February, the slowest pace of growth since September 2017. While that level of gains would be a concern if it were to continue, it comes against a backdrop of robust jobs gains the prior two months, and looking back a year, annual job growth remains well above the cycle average. The economy is slowing from a strong 2018, but we still expect above-trend growth in 2019. We will be monitoring how things develop, but overall we still believe strong labor markets with manageable wage growth will remain supportive of the overall economic picture, even taking the February slowdown into account.

THE BIGGER PICTURE

Job growth appeared to be going through some normal cyclical slowing toward the end of 2017, but then began to reaccelerate heading into 2018 [Figure 1]. Tax incentives and accompanying economic growth have helped pull people back into the labor force while also encouraging companies to create new jobs. While we

1 AVERAGE JOB GROWTH REMAINS STRONG DESPITE WEAK FEBRUARY



Source: LPL Research, Bureau of Labor Statistics 03/15/19

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don't expect job growth to return to peak levels seen in 2015, growth has been surprisingly strong for this point in the cycle. The 20,000 jobs added in February should be viewed in the context of the more than 500,000 jobs added in the prior two months, the strongest two-month stretch since 2016, and the average of more than 200,000 jobs added monthly over the last year. Wage gains also increased to a new cycle high of a still manageable 3.4% annually. Wage growth is starting to become a drag on corporate margins but does support consumer spending. To date, wage gains have put minimal upward pressure on inflation, and historically have had to be closer to 4% to bring the Federal Reserve (Fed) back into play due to concerns about an overheating economy.

ABOVE-AVERAGE GROWTH

Historically, in the twelve months before the start of a recession it's been unusual for jobs to be growing at a pace faster than the expansion average [Figure 2]. In fact, job gains before past economic peaks have been closer to 75% of the cycle average in the year before a recession starts. Right now, jobs are growing well above the expansion average of 164,000 jobs created per month. It would take job growth of about 140,000 per month over the next six months to pull us down even to the cycle average, and job growth of around 60,000 a month to get to the 25% slowdown that's more typical of past recessions. We expect job growth to stay comfortably ahead of that pace.

UNCHANGED EXPECTATIONS

The Atlanta Fed and New York Fed both produce "NowCast" forecasts of current quarter gross domestic product (GDP) that updates as new data are released. The Atlanta Fed's NowCast forecast for first quarter GDP actually increased following the release of the jobs report because of unusually strong housing data released at the same time, which more than offset the negative impact of the jobs report. The New York Fed's NowCast viewed the jobs report's impact as neutral, with a bump up in the outlook due to a decline in the unemployment rate, completely offsetting the negative impact of the weak jobs number. Again, housing data were a much larger positive. First quarter 2019 GDP growth is expected to be

2 STRONG JOBS GAINS POINT TO LOW SHORT-TERM RECESSION ODDS

Cycle Trough (prior recession ends)	Cycle Peak (expansion ends)	Average Job Growth Change in Cycle (excluding last 12 months)	Average Job Growth in 12 Months Before Peak	Hiring Trend?
November 1970	November 1973	190	246	Faster
March 1975	January 1980	264	166	Slower
July 1980	July 1981*	58	58	NA
November 1982	July 1990	241	146	Slower
March 1991	March 2001	213	96	Slower
November 2001	December 2007	100	95	Slower
June 2009	February 2019**	164	209	Faster
Average (Before Current Cycle)		178	134	

Source: LPL Research, Bureau of Labor Statistics, National Bureau of Economic Research 03/15/19

Numbers are monthly averages measured in thousands.

*July 1980–July 1981 cycle lasted 12 months.

**Current cycle has not peaked (to our knowledge) so "peak" is latest available data.

disappointing, with the Bloomberg-surveyed economists' consensus currently sitting at 1.5%, and then bounce back later in the year, but so far, the jobs report has had no real negative impact to current quarter GDP expectations.

WHAT ABOUT THE FED?

We received several key data points on inflation last week, reinforcing the jobs report's message that economic reports likely won't deflect the Fed from its current stance. The Fed next meets March 19–20 with no real likelihood that it will raise rates, but markets will be paying close attention to changes in the policy statement, updated projections, and Fed Chair Jerome Powell's press conference following the meeting's conclusion. The weak February jobs data and generally in-line inflation readings will do little to disrupt the Fed's current path of pausing on rate hikes until evidence appears that further hikes are merited. Modest but well-contained inflation does not seem a precursor of potential overheating, allowing the Fed to wait patiently for signs that a decelerating U.S. and global economy has potentially reversed course.

CONCLUSION

Attention-grabbing weak job creation in February shouldn't distract investors from otherwise strong labor market trends, especially for this point in the cycle. At the same time, the February jobs report and manageable inflation data support a continued pause in rate hikes while the Fed continues to watch for signs of a rebound in the U.S. and global economies. We'll continue to watch for signs of a weakening labor market, but for now we would still consider the job market a fundamental strength of the economy that will continue to support consumer spending while still putting only minimal pressure on inflation. ■