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Strongest labor market in half a century?

April sees surprisingly strong jobs gain, near 50-year low in jobless rate.

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BOTTOM LINE

It's a busy week, with May Day this past Wednesday, the release of the April employment report this morning, the 145th running of the Kentucky Derby tomorrow on "Star Wars Day" (May the Fourth be with You) and Cinco de Mayo on Sunday.

But the investment highlight was clearly this morning's jobs report, as the Labor Department said that nonfarm payrolls leapt by a much stronger-than-expected 263,000 in April, well above consensus expectations for an increase of 190,000 and Federated's more constructive estimate of 246,000.

Combined with March's slight downward revision to a gain of 189,000 jobs, February's sharp upward revision from 33,000 jobs to a final gain of 56,000, and January's robust final increase of 312,000 jobs, nonfarm payrolls have now enjoyed a healthy monthly average increase of 205,000 jobs during the first four months of 2019. This should eradicate the stench from February's initial weather-impaired miss that was further exacerbated by the federal government's temporary shutdown.

The emphatic highlight in April is that the official rate of unemployment (U-3) plunged to 3.6%, a new 49-year low (3.5% in December 1969). True, local government hiring added 27,000 jobs in April, but that also means that private payrolls surged by 236,000 jobs, averaging a solid private monthly gain of 190,000 in each of the first four months in 2019.

Goldilocks is in the house Wage growth was flat at 3.2% year-over-year (y/y) in April, and we learned yesterday that first-quarter unit labor costs actually declined by 0.9% on a quarter-over-quarter basis (q/q). At the same time, first-quarter GDP growth was stronger-than-expected at 3.2% q/q, while first-quarter productivity growth also surged by 3.6% q/q, its highest level since 2014. So with core PCE inflation slipping below the Federal Reserve's 2% target to 1.6% y/y in March, we continue to believe the Fed should remain on hold, with neither a hike nor cut appropriate given the highly desirable combination of strong growth with an absence of inflationary pressures.

What drove April's strong payroll gains? Initial weekly unemployment claims, a critically important leading employment indicator, hit a new 49-year cycle low (matching September 1969) of 193,000 for the April survey week that ended April 13. In addition, ADP's private-sector hiring was much stronger than expected, with an April gain of 275,000 jobs (vs. consensus expectations of 180,000) and revised March gain of 151,000 jobs from a preliminary estimate of 129,000. Claims and ADP are two key variables in Federated's employment model.

Construction strong, manufacturing meh The construction industry also starred last month, adding 33,000 jobs, the most since January, vs. 20,000 jobs in March and the loss 23,000 jobs in a weather-impaired February. The manufacturing sector added a weaker-than-expected 4,000 jobs in April (the consensus expected 10,000), but March was revised up to breakeven from a preliminary loss of 6,000 jobs. That's not surprising as April's ISM manufacturing index slipped to 52.8 as companies are right-sizing elevated inventory levels.

Household survey remains soft The admittedly volatile household survey lost 103,000 jobs in April, on top of March losses of 201,000. That compares with a robust gain of

255,000 in February, after a loss of 251,000 jobs in January.

Labor impairment flat, but participation falls The aforementioned decline in the U-3 rate to a 49-year low came about for the "wrong" reasons, as the labor force participation fell from a 5-year high of 63.2% in February to 63% in March and 62.8% in April. The labor impairment rate (U-6), which also is known as the "total" rate of unemployment because it includes discouraged workers and underemployed workers, also held steady for the third consecutive month at an 18-year low of 7.3%.

Despite a powerful bounce in March retail sales, hiring remains weak The retail sector shed jobs a third consecutive month, losing 12,000 jobs in April after losses of 16,000 and 14,000 in March and February, respectively.

Temps choppy Temporary help (a leading economic indicator) added 18,000 jobs in April, after losing 6,000 jobs in March, gaining 7,000 jobs in February and losing 26,000 jobs in January.

Wage growth flat, hours worked slip Average hourly earnings rose by a modest 0.2% m/m in April, flat from March's upwardly revised level, but still down from a robust 0.4% gain in February. As a result, the y/y gain held steady at 3.2% in April, down from February's 3.4% gain, which was a 10-year high. The average private workweek for all employees slipped a tick to 34.4 hours worked in April, its second decline in three months. A decrease of 0.1 hour worked theoretically subtracts 350,000 jobs from the economy.

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DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

The Institute of Supply Management (ISM) manufacturing index is a composite, forward-looking index derived from a monthly survey of U.S. businesses.

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