TrendMacrolytics

Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist
Thomas Demas, Managing Director

TRENDMACRO LIVE!

On April Jobs Data

Friday, May 5, 2006
David Gitlitz

Bonds are breathing a sigh of relief today that the **miss in April payrolls** was on the down side rather than up, but any hope that the **jobs data** augur a notable shift in the **economic setting** or the **Fed policy outlook** is likely to prove fleeting. Given the plethora of releases that show **stronger than expected growth** continuing into the current quarter -- including the **ISM** surveys, **personal income and consumption**, and **same-store sales** -- today's somewhat disappointing gain of 138,000 payroll jobs should be considered an outlier. Over the past six months, **job growth** has been trending higher at a rate of 200,000 per month. That's up from a six-month trend growth rate of less than 130,000 jobs as of last October.

The idea that the weakish-looking payroll growth was reflective of a significantly less robust **labor market** was refuted by solid gains in both **hours worked** and **wages**, as well as the **unemployment rate** remaining steady at a low 4.7%. Aggregate hours worked -- a critical indicator of **labor input** -- rose by 0.5% last month and shows growth at an annualized 3.5% over the past three months, on a par with the best levels of the late-90s labor market **boom**. Meanwhile, average hourly earnings also grew 0.5% last month, and have accelerated to a 3.8% year-on-year growth rate, up from less than 3% last summer.

For a Fed on sharp watch for **"wage inflation,"** this data is likely being read as indicative of a **tightening, not slackening**, labor market. That goes as well for the 2.5% increase in **unit labor costs** seen in yesterday's first quarter **productivity** report. The pop in labor costs came despite a solid 3.2% quarterly increase in productivity. Both indicators of compensation growth would be consistent from the Fed's perspective with the "risk that continuing increases in resource utilization could add to inflation pressures," as it was put in the statement following the last **FOMC** meeting in late March. For our purposes, however, these are manifestations not of **"cost-push" pressures** that risk sparking an inflation breakout, but rather of the **excess liquidity** that remains in the system creating mounting **inflationary impulses**.

In any case, it's highly unlikely the data are being interpreted by **policymakers** as suggesting less action is still required than they thought previously. We don't rule out the possibility that a consensus for a **pause** following next week's meeting has solidified at the Fed to the point where only a series of blockbuster releases will divert it. It's probably more the case, however, that the outlooks of the various central bankers are currently in such a state of flux that a firming up of their views into a solid consensus will come only with the flow of data yet to be released. As we've noted, our expectation is that continuing signs of **economic strength** will keep the Fed on its current course until the **overnight rate target** reaches at least 5.5%. TM

http://www.trendmacro.com
don@trendmacro.com
dgitlitz@trendmacro.com
tdemas@trendmacro.com

Offices:
Menlo Park CA
Parsippany NJ
Charlotte NC

Phone:
650 429 2112
973 335 5079
704 544 6900