WEEKLY ECONOMIC COMMENTARY—WEEK OF JULY 8th, 2019

Once again, fears that the expansion was on its last legs are turning out to be unfounded. Following a lackluster jobs report for May – which stoked those fears as well as the widespread view that the Fed would need to come to the rescue with an imminent rate cut – the Labor Department reported on Friday that the economy generated a robust 224 thousand jobs in June. That was well above expectations of a 165 thousand gain and dwarfs the downwardly revised 72 thousand payroll increase in May. To be sure, monthly numbers can be noisy, but smoothing out changes over 3 and 6-month periods shows that job growth is averaging about 170 thousand a month – modestly slower than the 192 thousand average over the past 12 months, but still a healthy pace that is consistent with an enduring expansion.

The June increase was spread across most industry groups, with only the beleaguered retail sector continuing to lose jobs. Importantly, the two most cyclically-sensitive sectors – manufacturing and construction – added far more workers to payrolls than expected. Manufacturers boosted payrolls by 17 thousand, the strongest gain since January, and construction firms added a healthy 21 thousand workers to payrolls. The upbeat hiring at factories suggest that global trade tensions may not be taking as much of a toll on the industrial sector as thought. As well, the steep decline in mortgage rates in recent weeks may be breathing new life into the housing sector, as the pickup in hiring at construction firms points to stronger building activity in coming months.

The unemployment rate ticked up a notch, to 3.7 percent from 3.6 percent in May. But the increase occurred for the right reasons, as the labor force participation rate rose from 62.8 percent to 62.9 percent. Simply put, improving job prospects and higher wages are luring workers off the sidelines into the labor market. Some of these entrants have not landed positions yet, but with job openings exceeding applicants by a substantial margin, their search should not take long. Even so, the jobless rate is hovering just over a half-century low; while there may still be slack in the labor force, it is steadily eroding

That said, the ever-tightening labor market is not stoking wage pressures. After hitting a cycle high of 3.4 percent in February, wage growth has virtually stagnated. In June, average hourly earnings for all private sector workers increased 3.1 percent from a year ago. Worse, the annual growth rate slowed to 2.8 percent over the most recent three-month period. Rank-and-file workers are faring somewhat better. Average wage growth for production and non-supervisory workers has held steady at a cyclical high of 3.4 percent through June. But as is the case for all workers, the increase in the latest month came in at a disappointing 0.2 percent, following a more robust 0.4 percent increase in May.

The good news is that wage growth remains above 3.0 percent for the eleventh consecutive month, a step-up from the 2.0 – 2.5 percent trend for much of the expansion. The bad news for workers is that the trend does not seem poised to accelerate from here. Global forces and weak pricing power by businesses are powerful headwinds keeping a lid on wage growth. But with more workers receiving paychecks and wages still growing faster than prices, consumer confidence should remain elevated and sustain a healthy pace of consumption. Trade tensions and slowing global growth are dragging down domestic activity, but with the fundamentals underpinning the U.S. economy still strong, the expansion should have legs to continue.

For the Federal Reserve, the conundrum it faces just got more intense. The rebound in job growth in June indicates that the economy is more resilient than thought, bucking the powerful headwinds from slowing global growth and escalating trade tensions. Hence, the urgency to cut rates as a bulwark against these growth-dampening influences has eased. But wage pressures have faded and inflation continues to undershoot the Fed's 2 percent target. Hence, the doves would argue that lower rates are needed to sustain a healthy pace of job growth and bring even more disenfranchised workers back to the labor force while posing little risk of fueling an undesirable increase in inflation.

From our lens, the strong jobs report lowers the odds that the Fed will cut rates at its upcoming policy meeting in late July. But unless subsequent reports on retail sales, production and other measures, including the second-quarter GDP report, also come in stronger than expected, there is still a strong possibility that it will pull the rate trigger at that meeting, if only to take out insurance against intensifying global crosscurrents. Chairman Powell and other Fed officials have repeatedly suggested that slowing global growth, lingering trade uncertainty and falling inflation expectations are strong reasons to implement an insurance rate cut sooner rather than later.

FINANCIAL INDICATORS

INTEREST RATES	Jul 5	Week Ago	Month Ago	Year Ago
3-month Treasury bill	2.23	2.13	2.28	1.96
6-month Treasury bill	2.13	2.11	2.16	2.12
3-month LIBOR	2.30	2.32	2.45	2.34
2-year Treasury note	1.87	1.75	1.86	2.54
5-year Treasury note	1.83	1.77	1.85	2.72
10-year Treasury note	2.04	2.01	2.08	2.81
30-year Treasury bond	2.54	2.53	2.57	2.93
30-year fixed mortgage rate	3.75	3.73	3.82	4.52
15-year fixed mortgage rate	3.18	3.16	3.28	3.99
5/1-year adjustable rate	3.45	3.39	3.52	3.74
STOCK MARKET				
Dow Jones Industrial Index	26,922.12	26,599.96	25,983.94	24,456.48
S&P 500	8,161.79	2,941.76	2,877.34	2,759.82
NASDAQ	2,990.41	8,006.24	7,742.10	7,688.39
COMMODITIES				
Gold ($ per troy ounce)	1,403.10	1,413.10	1,345.20	1,256.10
Oil ($ per barrel) - Crude Futures (WTI)	57.54	57.17	54.10	73.81

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/ Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
ISM Manufacturing Index (June)	51.7	52.1	52.8	53.8
ISM Non-manufacturing Index (June)	55.1	56.9	55.5	56.7
Nonfarm Payrolls (June) - 000s	224.0	72.0	216.0	172.0
Unemployment Rate (June) - Percent	3.7	3.6	3.6	3.8
Average Hourly Earnings (June) - % change	0.2	0.3	0.1	0.2
Trade Deficit (May) - $blns	55.5	51.2	51.9	53.7

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