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The U.S. economy is in the late stages of a record-long expansion, but it shows no signs of winding down. Indeed, if the latest employment report is any indication, the upturn may be getting a second wind. At the very least, the recession fears so prominent over the summer months have all but vanished. With the economy generating more than 200 thousand jobs a month, well above population growth, wages rising comfortably faster than inflation and the unemployment rate at a half-century low, the economy's growth engine has considerable torque to continue running for the foreseeable future. As well, the skeptics who questioned the Federal Reserve's decision to put further rate cuts on hold do not have much of a case for their disapproval – at least for now.

A jobs report that beat expectations in virtually every category sent stock prices surging and bond yields higher on Friday. In November, the economy generated 266 thousand new jobs, well above the expected gain of about 180 thousand. The increase received a big boost from 41 thousand returning auto strikers at GM as well as the roundly 12 thousand workers in related industries that were laid off during the strike. But even adjusting for those strike-related boosts, the advance in nonfarm payrolls exceeded expectations. What's more, the job increases over the previous two months were revised higher, adding another 41 thousand to the ranks of the employed.

The above-trend November increase together with the upwardly revised count for September and October underscore a slight acceleration in job gains in recent months. The three-month average growth in payrolls rose to 205 thousand from 196 thousand and 184 thousand monthly average increases over the past six and twelve months respectively. Who's doing the hiring? While the auto industry clearly stood out, thanks to the returning strikers, the job gains were spread across a wide swath of companies. A formidable 61.6 percent of private industries expanded payrolls, well above the 57.2 percent share over the previous 10 months of the year and the highest fraction since last December. The strongest gains, outside of the auto-related bloat in manufacturing, were seen in education and health (74 thousand), health care and social services (60.2 thousand) leisure and hospitality (45 thousand), and professional and business services (38 thousand).

Add it all up and what we are seeing is a job market that just refuses to quit, despite the headwinds from protectionist policies, weak global growth and sagging investment spending as business leaders continue to fret over ongoing trade wars. The sustained above-trend pace of job growth is drawing workers off the sidelines even as the unemployment rate is at a 50-year low of 3.5 percent. The labor force participation rate did inch down from to 63.2 percent from 63.3 percent in October, but remains just below its highest level since the summer of 2013. This is a remarkable achievement given the aging population, which is spurring a wave of retirements among baby boomers that should be putting greater downward pressure on labor force participation. The fact that it is not supports the view that there is more slack in the labor market than is generally believed.

HEADQUARTERS
2188 SW Park Place Suite 100
Portland, OR 97205 | Office: 503-248-9973

CALIFORNIA OFFICE
2010 Main Street, Suite 320
Irvine, CA 92614 | Office: 949-529-5289

Importantly, that view is held by Federal Reserve chair Powell, who continues to assert that the job market has more room to run and is not overly concerned by the sustained strength in hiring. Hence, while the strong jobs report validates the Fed's decision to delay further rate cuts, it should not fuel expectations of a rate increase. That would only be the case if an overheated job market were stoking higher inflation and inflation expectations. But despite the low unemployment rate, there is little sign of overheating or of accelerating inflation pressures. Indeed, the embers on both the wage and price fronts remain cool to the touch.

True, wage growth has picked up in recent years. In the three years prior to mid-2017, the annual increase in average hourly earnings was stuck in a range of 2.0- 2.5 percent, even as the unemployment rate tumbled from a cycle high of 10 percent to 4.3 percent. As the rate continued to fall and competition for labor grew more intense, the bargaining power of workers naturally increased and their paychecks improved. Hourly earnings growth finally pierced 3.0 percent in the summer of 2018 and has remained above that threshold ever since. Importantly, as the reservoir of available workers steadily diminished, companies had to dip deeper into the pool and offer more lucrative pay packages to lure in the lesser skilled and lower-paid workers that had been sidelined since the recession. Hence, over the past year, workers below the management level have enjoyed stronger wage growth than their supervisors. In November, average hourly earnings of production and nonsupervisory workers increased 3.7 percent from a year ago compared to 3.1 percent for all private-sector workers.

That's the good news. The bad news is that the growth rate in wages has virtually stagnated over the past year. Indeed, the 3.1 percent annual increase for all private-sector workers is down from the 3.4 percent raises they were getting back in February. For blue-collar workers, the 3.7 percent earnings increase is higher than earlier in the year, but still off from the 3.8 percent seen in October. What's more, the pay increases for nonmanagement workers – that account for about 80 percent of the workforce – are considerably below the 4-5 percent increases they were obtaining in the late stages of previous cycles. Hence, there is no sign that labor costs are putting upward pressure on inflation. Indeed, despite the blockbuster jobs report on Friday the increase in long-term Treasury yields was relatively modest, indicating that bond investors retain a relatively benign inflation outlook. The 10-year Treasury yield ended the day up 3 basis points and, at 1.84 percent, remains well below the 3.24 percent peak seen last November.

With the job market still in a healthy state, consumers should continue to be the economy's bright spot, providing most of the fuel to keep the growth engine humming. If nothing else, it suggests that the record-setting sales pace on Black Friday and Cyber Monday was not a fluke and expectations of a robust holiday shopping season are not out of line. However, there's an age-old proverb "trees don't grow to the sky" that is well worth remembering. We may be as close to a Goldilocks economy as there is, but the pudding is destined to cool in coming months. Keep in mind that the job market is a lagging indicator, and there are compelling reasons to believe that the best is behind us.

While the stronger than expected jobs report clearly took everyone by surprise, it is important to realize that job growth is already cooling. The 180 thousand average monthly increase in nonfarm payrolls this year is down from a 223 thousand monthly average increase in 2018 and is off even more from the 233 thousand monthly increase in the fourth quarter of last year. The drop-off in the private sector is even steeper – to a monthly average of 165 thousand this year from 215 thousand for all of 2018. Admittedly, there is still enough slack in the labor market for job growth to exceed population growth for a while; but the pool of available workers is shrinking, making it harder for companies to find qualified applicants to fill positions. This supply constraint alone will curtail the pace of job creation over the next year.

But the cooling should come from the demand side as well. As job growth slows, so too will incomes, the bedrock of consumer spending. Aggregate purchasing power could be sustained if the slowdown in job growth were to be offset by an acceleration in wage growth. However, that is an unlikely prospect. Company profits are already falling from year-earlier levels, productivity growth is sluggish and pricing power is constrained by global competition, the strong dollar and the emergence of e-commerce that enhances the ability of consumers to seek out the lowest prices among a broader spectrum of vendors.

To be sure, a strong stock market that derived more strength from the jobs report this week will beef up household portfolios and inject a wealth-boost to spending. But the boost will come mostly from a narrow slice of wealthy households that holds the vast majority of stocks and spends a minor fraction of the wealth gain. Their contribution would be more than offset by the slowdown in spending among the much larger group of households that live paycheck to paycheck and whose incomes are poised to slow as the job market cools.

Simply put, the surprisingly outsize increase in jobs last month is an encouraging sign that the expansion still has legs and will continue to run beyond this year. But we never thought the economy was about to fall off a cliff, and the robust jobs report only supports our view that the record-long expansion will gradually lose momentum amid intensifying headwinds, including sluggish global growth, lingering uncertainty over trade policy and restrained business investment spending. The best of times may be behind us, but the worst of times is still well down the road. We suspect that as the economy falls on harder times over the next year, the Federal Reserve will prolong the growth journey by cutting rates, mostly likely before the middle of 2020.

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FINANCIAL INDICATORS

INTEREST RATES	Dec 6	Week Ago	Month Ago	Year Ago
3-month Treasury bill	1.52	1.59	1.56	2.39
6-month Treasury bill	1.55	1.62	1.57	2.54
3-month LIBOR	1.89	1.91	1.90	2.77
2-year Treasury note	1.63	1.61	1.67	2.73
5-year Treasury note	1.67	1.63	1.75	2.71
10-year Treasury note	1.84	1.78	1.94	2.86
30-year Treasury bond	2.28	2.20	2.43	3.15
30-year fixed mortgage rate	3.68	3.68	3.69	4.75
15-year fixed mortgage rate	3.14	3.15	3.13	4.21
5/1-year adjustable rate	3.39	3.43	3.39	4.07

STOCK MARKET				
Dow Jones Industrial Index	28,015.06	28,051.41	27,681.24	24,388.95
S&P 500	3,145.91	3,140.98	3,093.08	2,633.08
NASDAQ	8,656.53	8,665.47	8,475.31	6,969.25

COMMODITIES				
Gold ($ per troy ounce)	1,464.60	1,470.40	1,459.20	1,253.80
Oil ($ per barrel) - Crude Futures (WTI)	59.13	55.42	57.38	52.34

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/ Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
ISM Manufacturing Index (November)	48	48	48	49
ISM Non-manufacturing Index (November)	53.9	54.7	52.6	54.4
Nonfarm Payrolls (November) - 000s	266.0	156.0	193.0	196.0
Unemployment Rate (November) - Percent	3.5	3.6	3.5	3.6
Average Hourly Earnings (Nov.)- % chg, Y/Y	3.1	3.2	3.0	3.2
Trade Deficit (October) - $billions	47.2	51.1	53.5	52.1

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