Early Signs Of Stronger Jobs Market

***e*Research Corporation** is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis analyzes last week`s jobs data.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: **Early signs of a stronger jobs market**

You can also visit Scott Grannis' Home Page for his Blog at the link below:
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Bob Weir, CFA: Director of Research

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Early Signs Of Stronger Jobs Market

February private sector job gains were substantially stronger than expected (287K vs. 205K), and prior months were revised higher. This is good news, but we are still in the early innings of what is likely to be a more powerful and sustained improvement in the jobs market.

That is what I anticipated in my 2018 predictions: *Waiting for GDP*. For the past few months, I have argued that the market has priced in the one-time impact of a significant reduction in the corporate income tax rate, but the market has still not yet priced in the expectation of a significant boost to future GDP growth.

"Waiting for GDP" is still the meme to watch for, and Friday's jobs number is the first sign that this meme may in fact be realized, but it is too early to know for sure. Of course, once it is clear that GDP growth could exceed 3% or so on a sustained basis, the stock market will be making new highs. For now, we can be hopeful that this will be the case.

Chart #1

Chart #1 shows the monthly change in private sector jobs from an historical perspective. February was strong, but it is hardly a unique occurrence; we have seen numbers like this from time to time and, in the end, they have proved transitory, not the start of something big. We will need to see more such numbers (e.g., job gains of at least 300K per month) before it is clear that the economy has kicked into a higher gear.

Chart #2

Chart #2 shows the 6- and 12-month annualized rate of change of private sector jobs growth. You cannot come to any conclusions with just one strong number; you have got to see a series of strong numbers. Jobs data are notoriously volatile and subject to significant changes after the fact. So far, all we have seen in recent months is that private sector jobs growth has risen from 1.7% to just under 2%. Hold the applause until jobs growth exceeds 2% by a substantial margin—not there yet.

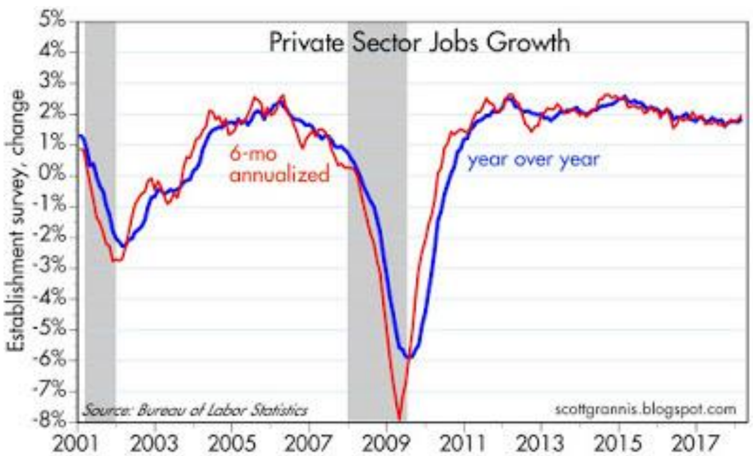


Chart #3

Since the unemployment rate is quite low—4.1%—we need to see a sustained increase in the labor force participation rate. Many millions of workers have "dropped out" of the labor force, and they will have to elect to return if the jobs market is to generate more than 300K new jobs every month. Fortunately, today's jobs number suggests this process may be beginning. Labor force growth has picked up significantly, as Chart #3 shows.

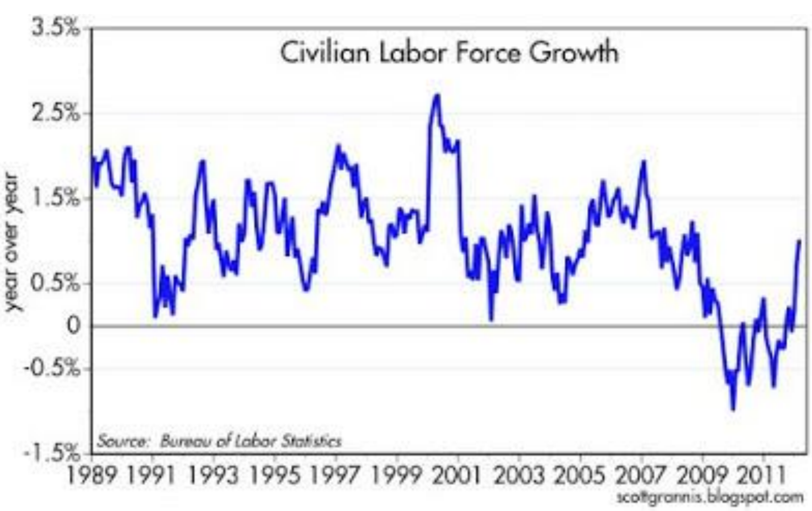


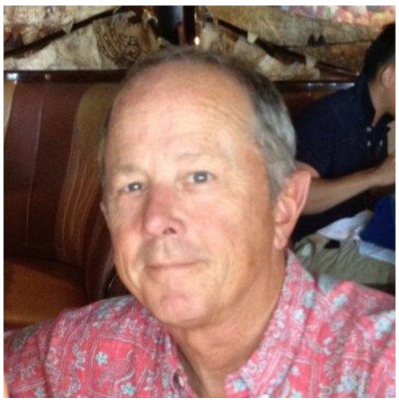
Chart #4

But it is still early, since the labor force participation rate (the percentage of people eligible to work who are working or looking for work) currently is only 63%, and the rate has not changed on balance for the past several years. We will need to see it increase to 64% or more.

Chart #4 gives you an idea of how low it has been (it started to decline in early 2009) and where it could go in the future if optimism returns in a serious fashion—as happened in the boom years of the late 1980s.

BW: See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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