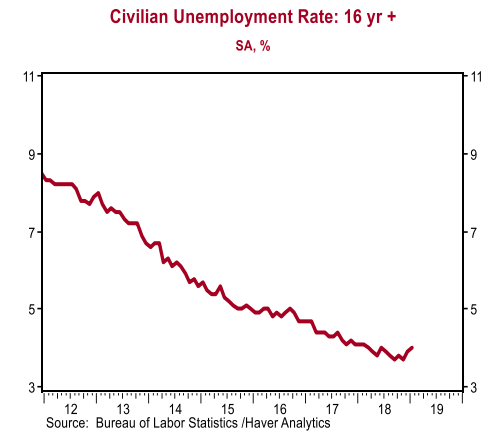
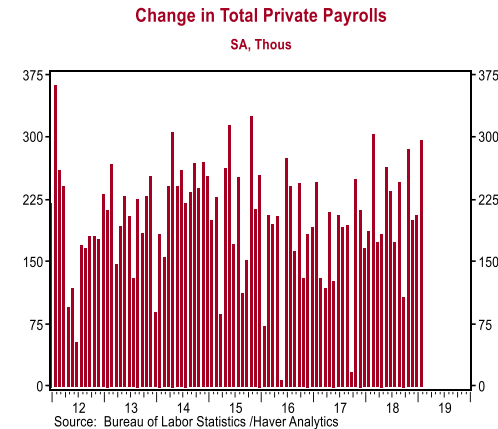


January Employment Report

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- Nonfarm payrolls rose 304,000 in January, easily beating the consensus expected 165,000. Including revisions to November/December, nonfarm payrolls increased 234,000.
- Private sector payrolls rose 296,000 in January while revisions to the two prior months subtracted 68,000. The largest increases in January were for leisure & hospitality (+74,000), construction (+52,000), and health care (+42,000), Manufacturing increased 13,000 while government rose 8,000.
- The unemployment rate rose to 4.0% in January from 3.9% in December.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in January and are up 3.2% versus a year ago.

Implications: If this is how the economy does when the government is shut, maybe we should have kept it shut longer. Only a week ago, some analysts were bemoaning the partial government shutdown, saying it could lead to a recession. But payrolls rose 304,000 in January, the largest increase in almost a year and easily beating the highest forecast from any economics group. Meanwhile, civilian employment, an alternative measure of jobs that includes small business start-ups, rose 238,000. In the past year, nonfarm payrolls are up 234,000 per month while civilian employment is up 220,000 per month, a robust trend either way. Although the unemployment rate rose to 4.0%, that was due to the government counting furloughed workers as unemployed even though they would ultimately get paid. We anticipate a drop in the jobless rate to 3.8% next month. One of the best details in today’s report was a 497,000 increase in the labor force (people who are either working or looking for work). The labor force has increased by 213,000 per month in the past year and the participation rate is now 63.2%, the highest since 2013, showing strength in the economy offsetting the effects of an aging population. Meanwhile, the share of the adult population that’s working hit 60.7%, the highest since 2008. Although average hourly earnings rose a tepid 0.1% in January, these earnings are up 3.2% in the past year. Meanwhile, total hours rose 0.3% in January and are up 2.4% in the past year. As a result, total cash earnings are up 5.7% in the past year, easily surpassing inflation and more than enough to keep consumer spending growing. We think this shows that the Federal Reserve is being unnecessarily cautious about raising interest rates. The US economy warrants higher short-term rates. Regardless, it looks like the Fed will remain on hold until we get more clarity on issues like the federal budget impasse, trade negotiations, and Brexit, the resolution of which should send the 10-year Treasury Note yield to the 3.00% level we think the Fed wants to see before lifting rates again. In the end, we think the 10-year yield rises due to solid economic data like today’s employment report and the Fed ends up hiking rates twice in 2019, maybe more if yields rise enough. Not every jobs report will be as strong as January’s, but those fearing a recession or significant slowdown are way too bearish.



Employment Report <i>All Data Seasonally Adjusted</i>	Jan-19	Dec-18	Nov-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.0	3.9	3.7	3.9	3.8	3.9
Civilian Employment (monthly change in thousands)	238	137	216	197	199	220
Nonfarm Payrolls (monthly change in thousands)	304	222	196	241	232	234
Construction	52	28	5	28	27	28
Manufacturing	13	20	27	20	19	22
Retail Trade	21	-12	33	14	2	2
Finance, Insurance and Real Estate	13	4	3	7	10	11
Professional and Business Services	30	29	34	31	43	46
Education and Health Services	55	67	29	50	46	44
Leisure and Hospitality	74	55	39	56	40	34
Government	8	16	-4	7	8	11
Avg. Hourly Earnings: Total Private*	0.1%	0.4%	0.3%	3.1%	3.3%	3.2%
Avg. Weekly Hours: Total Private	34.5	34.5	34.4	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.3%	0.5%	-0.2%	2.2%	2.2%	2.4%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized