



WEEKLY ECONOMIC COMMENTARY

This Week's Economic Review and Outlook

March 2018

Weekly Economic Commentary | Week of March 12, 2018



Chad A. Eyre Jeffrey O. Parker

Chad A. Eyre & Jeffrey O. Parker
 Retirement & Investment Center
 located at DCECU
 600 E Lyon Rd
 Midland, MI 48640
 989-835-7794 ext. 4572
marybeth.garabelli@lpl.com
www.lpl.com

FEBRUARY EMPLOYMENT REPORT: MORE JOBS, LESS WAGE GROWTH

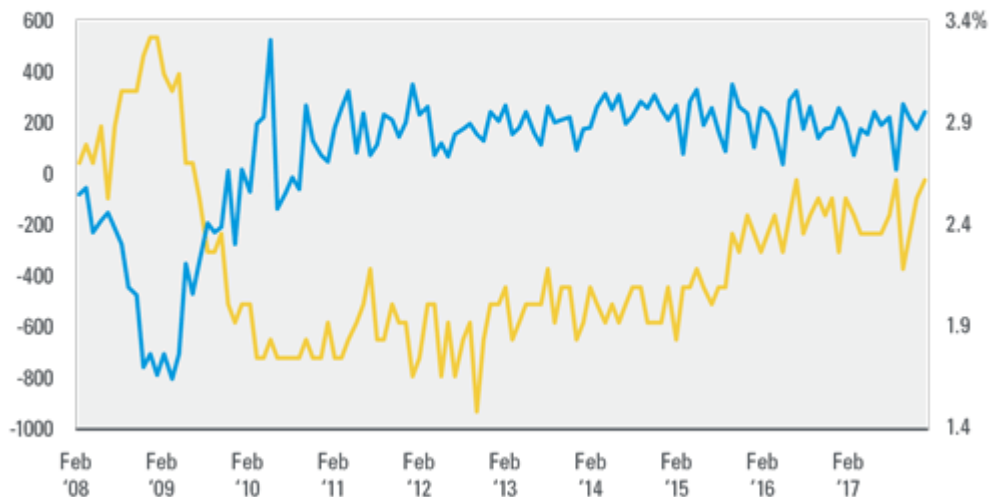
KEY TAKEAWAYS

- The February employment report outpaced expectations, with nonfarm payrolls growing by 313,000.
- Wage growth moderated after last month's jump, taking some of the wind out of recent inflation concerns and headlines.
- The report keeps the Federal Reserve on track for three hikes in 2018, including one in March.

The February employment report crushed expectations for the number of jobs created (313,000 versus the consensus expectation of 205,000), but wage growth moderated from the surprising January levels. January's numbers were also revised higher from 196,000 to 238,000, and the total two-month revision increased by 54,000. The headline number was the strongest result since July 2016, and points toward continued economic growth in the United States. However, wage growth, which had picked up to multi-year highs in January, weakened to 2.6% year over year from January's downwardly revised 2.8% **[Figure 1]**.

1 EMPLOYMENT GAINS ACCELERATED, AND WAGE GROWTH MODERATED IN FEBRUARY

- Month-over-Month Change in Nonfarm Payrolls Thousands (Left Axis)
- Year-over-Year Change in Average Hourly Earnings (Right Axis)



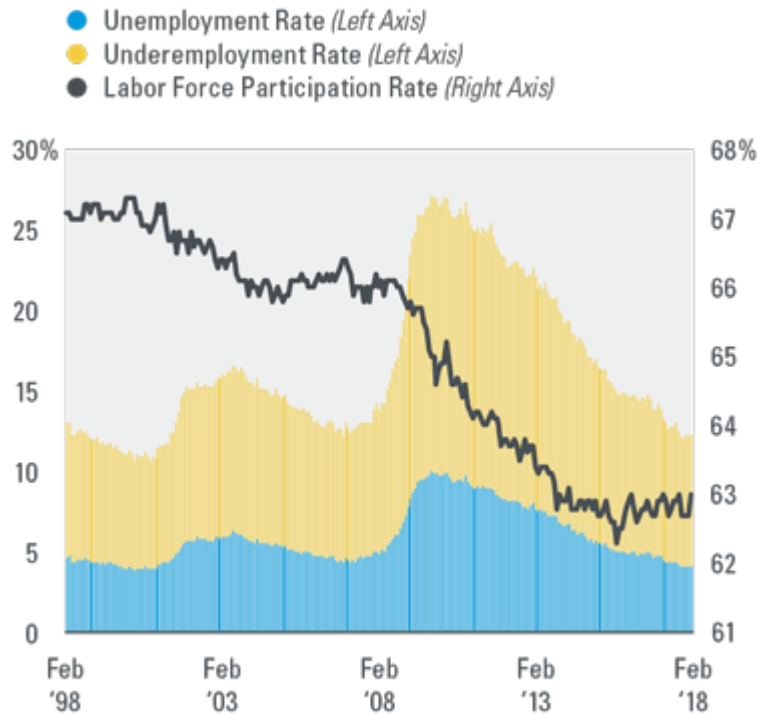
Source: LPL Research, Bloomberg, Bureau of Labor Statistics 03/09/18

WHERE DID THE GAINS COME FROM?

As usual, the private sector saw the largest gain, with payrolls increasing by 287,000. Construction (+61,000) and manufacturing (+31,000) saw solid gains, adding to the strength seen in goods-producing industries in the last few months. In fact, goods-producing industries added 100,000 jobs in February, which was the largest number since June 1984, though there were periods of similar strength in March 1994 (+99,000) and March 2000 (+96,000). Other major gains occurred in retail (+50,000) and professional and business services (+50,000). Within professional and business services, temporary help services-which can be viewed as a leading indicator of future jobs growth-saw a gain of 26,500, the third largest increase in the last five years. Government employment was responsible for the rest of the gain in payrolls (+26,000 jobs), with gains in local (+31,000) and state government (+2,000) offsetting a decline in federal employment (-7,000).

The labor force participation rate increased slightly, but remains within its recent range at 63% [Figure 2]. This may show that wage gains have started to draw some marginalized workers back into the workforce, but it was not enough to raise the unemployment rate or underemployment rate, which remained at 4.1% and 8.2%, respectively. Both remain at low levels, with unemployment at its lowest level since early 2001, and underemployment near the cycle low of 8% reached in October 2017.

2 LABOR FORCE PARTICIPATION, UNEMPLOYMENT, AND UNDEREMPLOYMENT RATES REMAIN LOW



Source: LPL Research, Bloomberg, Bureau of Labor Statistics 03/09/18

WAGE GROWTH STORY NOT OVER YET

January's employment report, released last month, showed a surprise uptick in wage growth (2.9% year over year versus 2.6% expected), which brushed off the inflation concerns that markets had been focused on over the past month. February's employment report, however, did see a moderation of wage pressures. Average hourly earnings increased by just 0.1% month over month, bringing year-over-year growth down to 2.6%. January's year-over-year number was also revised lower to 2.8%.

While this might mean that wage growth falls out of the headlines, we wouldn't count the theme out just yet. Though wage growth missed expectations in this report, market expectations for the future path of Federal Reserve (Fed) rate hikes didn't change much. Following the January report, fed funds futures markets moved to price in three rate hikes in 2018, and this continued to be the case following the February report. Expectations for 2019 were also little changed (at 1.5 rate hikes), and breakeven inflation expectations, as measured by the difference between the 10-year Treasury yield and 10-year Treasury Inflation-Protected Security (TIPS) yield, remained stable at just over 2.1%.

Additionally, the Fed's most recent Beige Book—a qualitative assessment of the domestic economy and each of the 12 Fed districts individually—showed that businesses were dealing with tight labor market conditions, wage growth had "picked up to a moderate pace," and that "most Districts saw employers raise wages and expand benefit packages in response to tight labor market conditions." It is also important to note that though wage growth did decelerate in February, it remains toward the upper end of its post-crisis range.

As mentioned previously, the labor market remains tight and if strong employment growth continues as expected, wage growth could continue to pick up as well. Given labor force participation rates that are below previous expansions, it may still be some time before wage growth picks up to the 4% level that has historically meant higher inflation and a more aggressive Fed, but this is an area we will continue to watch closely in the coming months.

CONCLUSION

February's employment report saw payrolls expand at a significantly faster pace than markets expected, though a moderation in wage growth helped offset any market concerns about a faster pace of Fed rate hikes. We don't expect wage growth to move high enough to warrant a more aggressive Fed in the near term, but it's worth noting that year-over-year growth in average hourly earnings remains near the top of its post-crisis trend. Other

indicators such as the Fed's Beige Book and a tight labor market may mean that wage growth is still worth keeping an eye on. Overall, the labor market and economy continue to show strength, which we believe will lead to three Fed rate hikes in 2018.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Treasury Inflation-Protected Securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index (CPI), while providing a real rate of return guaranteed by the U.S. government. However, a few things you need to be aware of are that the CPI might not accurately match the general inflation rate; therefore, the principal balance on TIPS may not keep pace with the actual rate of inflation. The real interest yields on TIPS may rise, especially if there is a sharp spike in interest rates. If so, the rate of return on TIPS could lag behind other types of inflation-protected securities, like floating rate notes and T-bills. TIPS do not pay the inflation-adjusted balance until maturity, and the accrued principal on TIPS could decline, if there is deflation.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

Tracking #1-708612 (Exp. 03/19)

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Chad A. Eyre & Jeffrey O. Parker is a Registered Representative with and Securities are offered through LPL Financial, member FINRA/SIPC. Insurance products offered through LPL Financial or its licensed affiliates.

Retirement & Investment Center located at DCECU is not a registered Broker/Dealer and is not affiliated with LPL Financial

Not FDIC/NCUA Insured	Not Bank/Credit Union Guaranteed	May Lose Value
Not Insured by any Federal Government Agency		Not a Bank Deposit

This newsletter was created using [Newsletter OnDemand](#), powered by Wealth Management Systems Inc.