Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

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Time to Start Believing

After years of disappointment, many investors refuse to believe in the strength of the US labor market. Yet in our opinion, the jobs data has kept the Fed on track for a rate hike this year, with the June FOMC meeting "on the table."

More evidence rolled in this morning. According to the Bureau of Labor Statistics, US businesses added 295,000 net new jobs in the month of February and the unemployment rate fell to 5.5%.

"One good month worth of data? Come on!", some complain. But it is more than just one month's worth of data. The six month average payroll growth figure is just shy of 300k per month, which is terrific. February's report marks the 43rd consecutive month in which total employment grew between 1.5% and 2.5% year-over-year. In the last year, nonfarm payroll employment increased by 3.3 million, making the period the best 12 month period since 2000, up 2.4%!

Show the above to many investors and they scoff: "We need to see more than just a string of strong top-line employment numbers. We need the underlying details of job growth to improve! Composition matters!"

But, once again, it isn't just the headlines that tell a good story about the labor market. Of the 3.3 million jobs added since last February, 2.8 million were service providing jobs and 500,000 were goods producing. This roughly 80%/20% services versus goods producing composition is in line with the historic average since 2000–it's not new to this cycle.

What is more, the breadth of job creation, known as diffusion, has improved sharply since fall 2013. The diffusion index reached 65.4% in February's report--indicating a wide array of industries are expanding. In fact, in the last year, only one industry saw a contraction in payrolls: non-internet publishing.

More firms are hiring. More industries are hiring. The economy *is* gaining strength.

"But wait!", you might cry, "Who cares if the labor market strength is broadening? Most of the jobs added since the recession are low-skilled, low wage occupations. And without wage growth the Fed is sidelined!"

Fortunately, these critics do not have data on their side. Health care and social assistance, the industry which has generated the 4th largest percent increase in employment since 2007, accounts for 13% of total nonfarm payroll employment. More than half of the workers in health care earn above average hourly wages. Meanwhile, accommodation and food services (think restaurant jobs)–the 6th fastest growing sector of the US labor market–is only 9.1% of total employment.

Average hourly earnings are up 2.0% over the last 12 months. Given the momentum in the job growth (and especially if it is maintained through the year), the fall in the unemployment rate and evidence of compensation gains in other reports, we expect a pickup in wage growth later this year.

The labor market does look great, both on headline measures as well as in the details.

It is time to start believing.