Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

MAY 3, 2013

So Much For the Spring Swoon?

The "Spring swoon" many investors feared based on March's disappointing jobs report has been revised away.

The verdict after today's *Employment Situation* report released this morning by the Labor Department: moderate growth continues, not just in gross domestic product (as we highlighted last week) but in employment growth as well. As a result, the gloom hanging over US capital markets lifted at bit this morning.

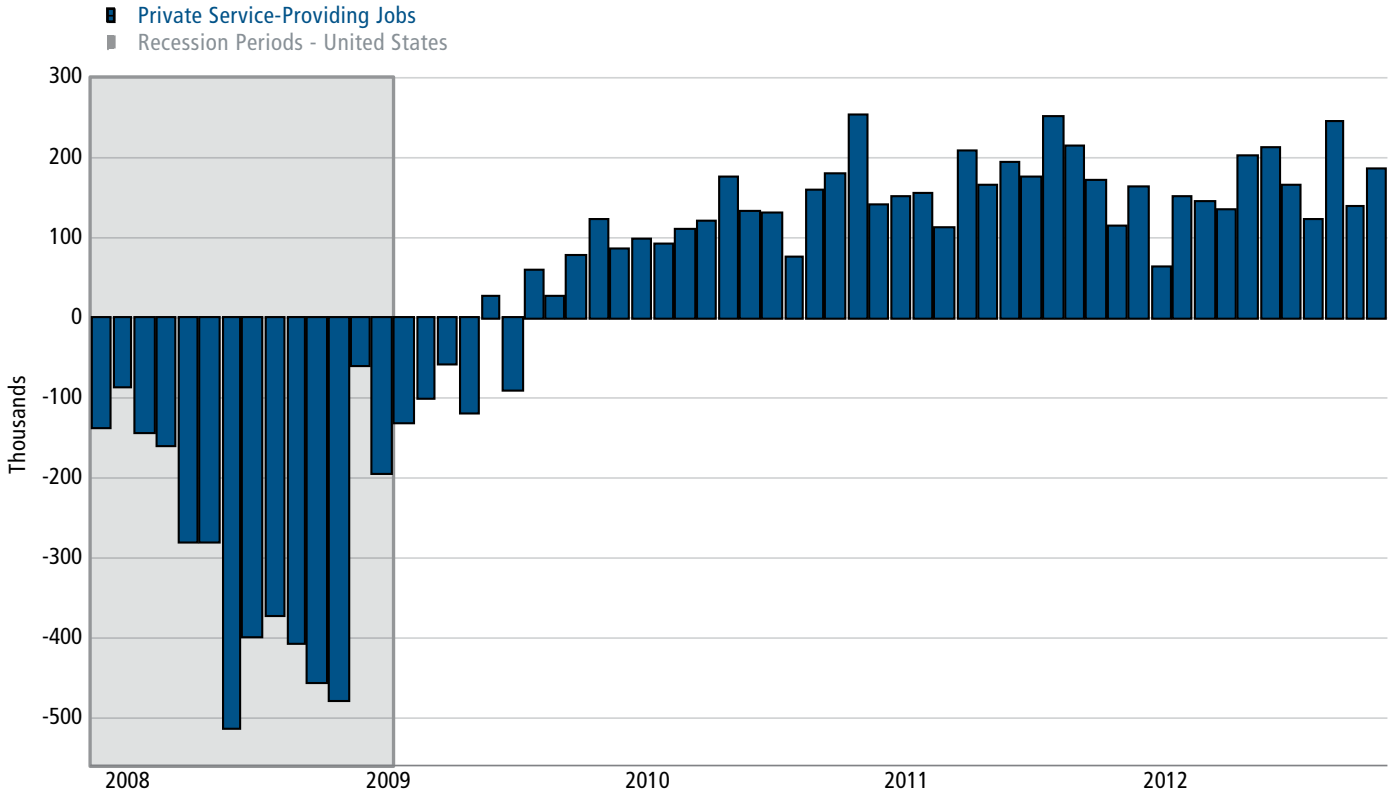
In the details, **the US economy added +165,000 jobs in April, close to the 12-month moving average (+173,000)**. Those worried about a fiscally-induced fiasco in the labor market need not. Job growth proceeded at a pace nearly identical to last year's pace. Data from the establishment report indicated monthly gains of +185,000 in private-sector service-providing jobs (***See Chart 1 below***). This subset continues to make new highs in total employment (now well above pre-recession levels now). Temporary help services rose +30,800 on the month, also a good leading indicator.

In addition to the positive monthly numbers, the sum of the revisions from March and February showed that the US economy added an additional +114,000 jobs on nonfarm payroll employment. Such upward revisions add to the already positive current monthly report momentum, an excellent sign. **The private sector has now added 6.8 million new jobs since early 2010.**

Further, using numbers from the Household Survey (the survey used to generate the unemployment rate), employment rose +293,000 during April. The unemployment rate, which fell to 7.5%, has declined 0.3% this year, in part because some have left the labor force, and in part due to a recovering labor market. For the month, the labor force participation rate held steady at 63.3%.

In short, be careful of the doom-and-gloom forecasts, the economy and labor market recovery continue. We still do not see signs of a recession. Fiscal fiasco forestalled.

Chart 1 - JOB GAINS CONTINUE IN Q1 2013

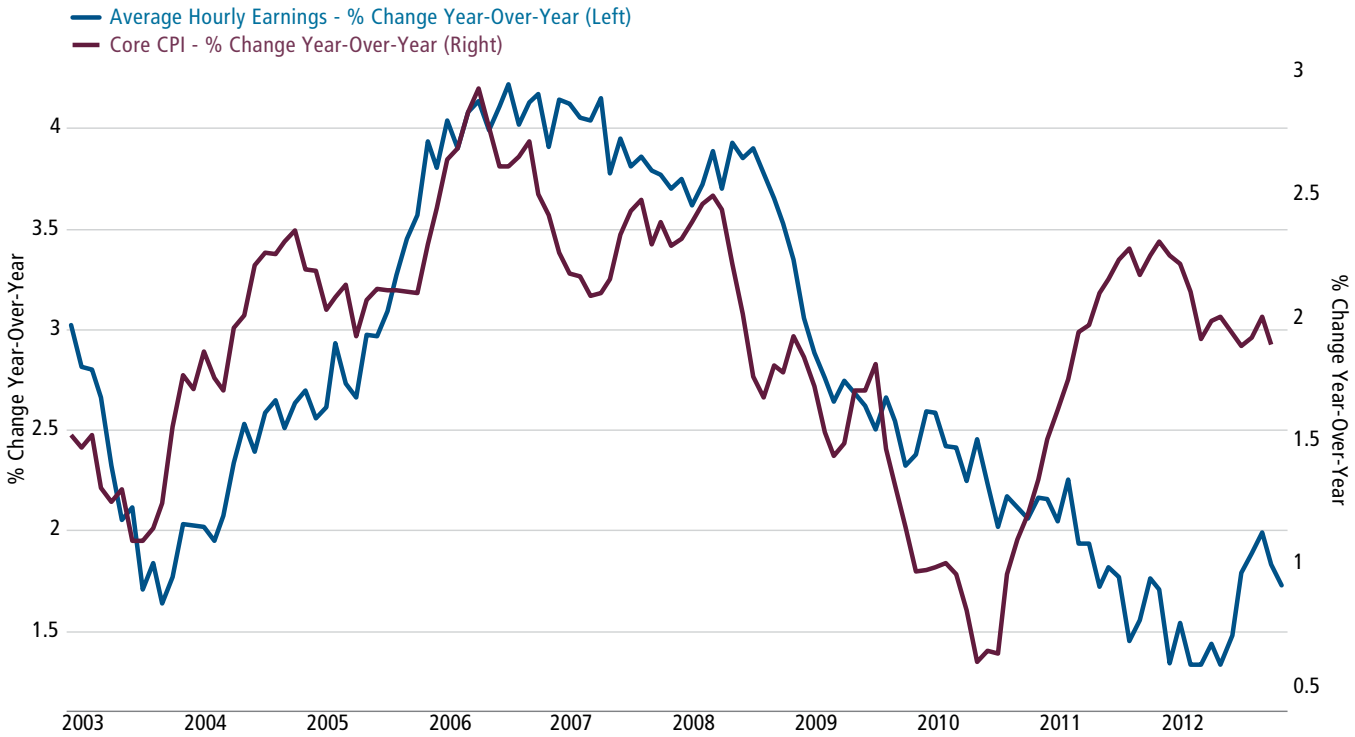


Source: BLS, Payden Calculations

From the Federal Reserve's perspective, **continued moderate growth suggests any increase to the asset purchase ("QE") program may be premature. At the 12-month average pace of payroll growth, the unemployment rate reaches the Fed's threshold of 6.5% around mid-2015. If we use the 3-month average, we get to 6.5% in mid-2014.** Two items, though, bear consideration. First, the FOMC is probably still looking for slower employment growth ahead as the "fiscal constraint" drags on job growth. Second, the pace of job growth--while moderate--is still below the +200,000 or higher monthly pace of growth many FOMC members are looking for.

Meanwhile inflation is of minor concern here: **average hourly earnings rose only 1.7% year over year (*see Chart 2 below*).**

Chart 2 - INFLATION? WAGE GROWTH STILL SUBDUED



Source: BLS

Finally, before folks get too carried away on the positive side, our favorite employment-to-population ratio ticked up one-tenth to 58.6% from 58.5% in April 2012. As a share of the working-age population, those employed have increased only marginally. Further, workers working part-time for economic reasons registered at 7.8 million in April 2013, exactly where it was a year ago. W**e interpret these muted changes as suggesting that job growth is keeping up with population growth, but could be doing a lot better. The "Great Restructuring" still has a ways to go.**

Bottom line: no recession, no slowdown, moderate growth, no inflation, Fed cautiously on hold until pace of job growth accelerates (or decelerates).