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January Employment Report

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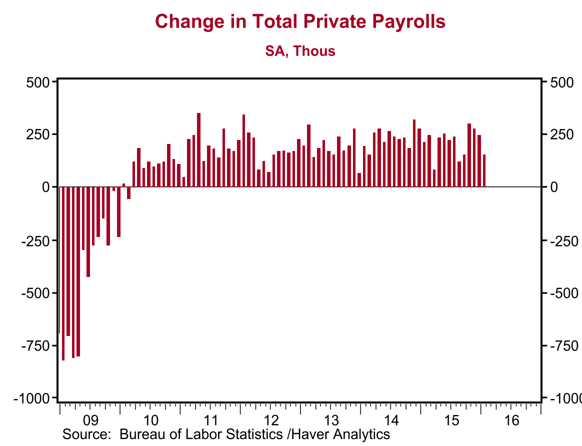
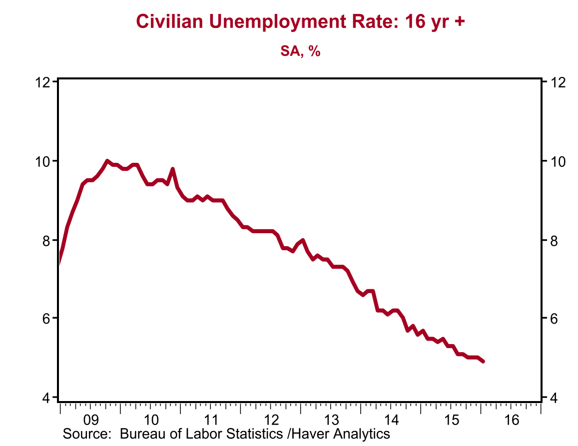
- Nonfarm payrolls increased 151,000 in January versus a consensus expected 190,000.
- Private sector payrolls increased 158,000 in January. The largest gains in December were for retail (+58,000), restaurants/bars (+47,000), and manufacturing (+29,000). Government payrolls fell 7,000.
- The unemployment rate ticked down to 4.9% in January versus 5.0% in December.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.5% in January and are up 2.5% versus a year ago.





Implications: Today's report on the labor market suggests that a rate hike in the first half of 2016 is still likely and could even come as early as March. Payrolls increased 151,000 in January, below consensus expectations. But, other than that, today's report on the labor market was red hot, with a big spike in the other key measure of jobs, higher wages, and more hours. Civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 615,000 in January. That's the reason the unemployment rate went down to 4.9% despite a 502,000 increase in the labor force. Remember, the consensus at the Fed is that a jobless rate of 4.9% is the long-term norm, and now we're already there with further declines in the pipeline for at least the next year due to the loose stance of monetary policy. Notably, the participation rate, while still very low by historical standards, hit 62.7% in January, the highest in eight months. It looks like faster wage growth is finally getting more people interested in working again. Average hourly earnings, which don't even include fringe benefits like health care or irregular bonuses/commissions, spiked 0.5% in January and are up 2.5% from a year ago. In the past six months, these wages are up at a 2.9% annual rate, the fastest pace for any six-month period since the recession. Meanwhile, the number of hours worked is up 2.1% versus last year. Combined with the gain in wages, workers' total earnings are up 4.7% in the past year, which is why consumer spending should continue to grow. If you're one of the traditional Keynesians at the Fed, who think lower unemployment leads to faster wage growth and then, eventually, broader inflation, today's report suggests your model accurately describes current conditions. Unemployment came down and now wages are growing faster. That's why investors who have steeply discounted the possibility of more rate hikes this year need to change their outlook. A modest series of rate hikes will not kill economic growth; it will help prevent mal-investment (like in the housing bubble in the prior decade) and future inflation. Although the labor market could be doing even better with a better set of policies, like less government spending, lower marginal tax rates, and less regulation, it continues to improve and is likely to keep getting better in 2016.

Employment Report *All Data Seasonally Adjusted*	Jan-16	Dec-15	Nov-15	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**4.9**	5.0	5.0	5.0	5.0	5.2
Civilian Employment (monthly change in thousands)	**615**	485	247	449	280	203
Nonfarm Payrolls (monthly change in thousands)	**151**	262	280	231	215	222
Construction	**18**	48	65	44	30	22
Manufacturing	**29**	13	3	15	3	4
Retail Trade	**58**	-1	52	36	23	25
Finance, Insurance and Real Estate	**18**	10	18	15	12	12
Professional and Business Services	**9**	60	48	39	47	52
Education and Health Services	**6**	54	45	35	50	54
Leisure and Hospitality	**44**	31	46	40	43	38
Government	**-7**	11	1	2	2	7
Avg. Hourly Earnings: Total Private*	**0.5%**	0.0%	0.2%	2.9%	2.9%	2.5%
Avg. Weekly Hours: Total Private	**34.6**	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	**0.4%**	0.3%	0.2%	3.5%	2.1%	2.1%

**3, 6 and 12 month figures are % change annualized*