First Trust
Monday Morning OUTLOOK
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The Labor Market Mystery

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The most important economic report of the next couple of weeks is not the GDP report on Thursday, which, as we said last week, is likely to show mediocre real growth of 1.5%. Strip out inventories, trade, and government and "core" real GDP growth should be around 3.5%.

Instead, the most important report is the October employment data set for release on November 6. Data already released suggest that nonfarm payrolls expanded about 235,000 in October and the unemployment rate ticked down to 5%, the lowest level since 2008. With ISM reports and more initial claims data coming soon, this could change, but a report in-line with these expectations should result in much higher odds of a rate hike in mid-December.

Initial claims for unemployment insurance have been below 300,000 for 33 straight weeks and, at 263,250, the four-week moving average is the lowest since 1973. Even more remarkably, there were only 77 million jobs back in 1973 compared to 142 million today, so the low claims number today is achieved while there are plenty more workers capable of being laid off. In fact, the number of people working in the United States has never been higher, both overall and in the private sector.

But this hasn't stopped the Pouting Pundits of Pessimism from bemoaning problems in the job market and calling for the Fed to prolong its already overly long wait before it starts to raise short-term interest rates.

Recently, they've focused on slow growth in wages per hour, up "only" 2.2% from a year ago. For some, this is a sign of workers losing out in the race against machines or the global over-supply of workers, problems which should continue and mean the Fed should hold off on raising rates.

But, one thing to remember is that these wage data do not include all compensation, leaving out some bonuses and commissions. Moreover, workers do not lose when machines are put in place. First of all, machines don't just drop out of the sky; someone invents them, designs them, and builds them, and all of these workers win. Next, when machines make operations more efficient, consumers win through lower prices, allowing them to "afford" other goods and services. And, that "new" demand boosts other sectors' work as well. The Luddite theory that machines make people obsolete is as wrong now as it was 200 years ago.

Think about it. If technology were behind problems in the US labor market, why do we have higher labor force participation among older workers, who are less technologically savvy, while we have lower participation among younger workers?

The other theory, about "over-supply," ignores Say's Law, that supply creates its own demand, which in this context means that adding labor to the global marketplace also adds to global output and more demand for workers.

Here's an alternate theory: In the current business cycle, new government regulations have lifted the "fixed" costs of hiring workers. These costs are the highest ever and include health care costs, mandates like family leave, as well as the potential of wrongful termination lawsuits. In that environment, companies are understandably reluctant to give workers raises in the form of hourly wages and salaries, because the non-cash portion of labor comp is rising rapidly.

The bottom line is that it's time for the Fed to start raising short-term rates. Momentum alone, from the past couple of years of loose monetary policy, is likely to push the jobless rate well below 5% in the year ahead, which is a clear sign that the Fed has been too loose for far too long.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-26 / 9:00 am	New Home Sales – Sep	0.549 Mil	**0.535 Mil**	0.468 Mil	0.552 Mil
10-27 / 7:30 am	Durable Goods – Sep	-1.5%	**-2.9%**		-2.3%
7:30 am	Durable Goods (Ex-Trans) – Sep	0.0%	**-0.3%**		-0.2%
9:00 am	Consumer Confidence – Oct	103.0	**103.1**		103.0
10-29 / 7:30 am	Initial Claims – Oct 24	265K	**263K**		259K
7:30 am	Q3 GDP Advance Report	1.5%	**1.5%**		3.9%
7:30 am	Q3 GDP Chain Price Index	1.5%	**1.8%**		2.1%
10-30 / 7:30 am	Personal Income – Sep	+0.2%	**+0.2%**		+0.3%
7:30 am	Personal Spending – Sep	+0.2%	**+0.3%**		+0.4%
8:45 am	Chicago PMI	49.4	**49.2**		48.7
9:00 am	U. Mich Consumer Sentiment- Oct	92.5	**92.1**		92.1