First Trust
Monday Morning OUTLOOK
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Job Report Overreaction

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The more we look at Friday's jobs report the more we're wondering what so many other analysts are so worked up about. It was like the pessimists won the Kentucky Derby and the Preakness at once. Trumpets, roses, and scare stories rocked many less informed investors. When so many stories are written that miss the most important points of economic reports and tilt toward a gloomy spin it's hard to hear the truth through the noise.

Yes, the headlines were a little on the weaker side, with payrolls expanding 160,000 in April, coming in both below the recent trend and below consensus expectations. But the fact that analysts were so disappointed by a gain of 160,000 shows how far the economy has come. In 2011-12, the economy was averaging roughly 175,000 jobs per month. That was the norm and 160,000 would have been perfectly respectable. Now, many consider 160,000 weak.

Just as important, Friday's report on April is only the first glimpse of payroll growth for that month and future adjustments may lead to substantial changes.

Remember the goose-egg (literally, zero net change in payroll jobs) for job growth for August 2011? That's since been revised to a gain of 107,000. Or how about the gain of only 96,000 for August 2012, since revised up to 190,000. Or March 2013, initially reported 88,000, now up 135,000. In other words, anyone leaping to conclusions about the labor market or broader economy based on Friday's headline is ignoring history.

Moreover, the details of the jobs report were much better than the headlines. Both wages and the number of hours worked showed strength. The average private-sector workweek ticked up to 34.5 hours in April from 34.4 in March, which is the equivalent of adding about 350,000 jobs. Total weekly hours worked are up 2.1% versus last year. Meanwhile, average hourly earnings are up 2.5%.

As a result, the total cash earnings of workers, excluding their fringe benefits like health care and irregular bonuses/commissions, are up 4.7% in the past year (We know, the math seems strange, but it's really the way it works.) That's not bad at all and shows companies are willing and able to hire more workers.

We are even more perplexed by how little chance financial markets appear to be giving a rate hike in June. As of the close of markets on Friday, the odds were still only 8%.

We still believe the Fed is more likely to raise rates in mid-June. We've been wrong before and they could push it off again, but the labor market is tight, oil prices are on the rise, and the dollar has weakened since November. We certainly wouldn't be surprised that, given their Keynesian worldviews, they wait longer. The only thing that shocks us is that so many other analysts think it would be shocking if the Fed raises rates in June.

In turn, this reflects too much economic pessimism built into both the conventional wisdom and asset prices, which is part of the reason we remain bullish on equities and bearish on US Treasury securities.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-12 / 7:30 am	Initial Claims – May 7	270K	**267K**		274K
7:30 am	Import Prices – Apr	+0.6%	**+1.7%**		+0.2%
7:30 am	Export Prices – Apr	0.0%	**-0.3%**		0.0%
5-13 / 7:30 am	PPI – Apr	+0.3%	**+0.2%**		-0.1%
7:30 am	"Core" PPI – Apr	+0.1%	**+0.2%**		-0.1%
7:30 am	Retail Sales – Apr	+0.8%	**+1.2%**		-0.3%
7:30 am	Retail Sales Ex-Auto – Apr	+0.5%	**+0.8%**		+0.2%
9:00 am	Business Inventories – Mar	+0.2%	**+0.3%**		-0.1%
9:00 am	U. Mich Consumer Sentiment- May	89.5	**89.5**		89.0