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April Employment Report

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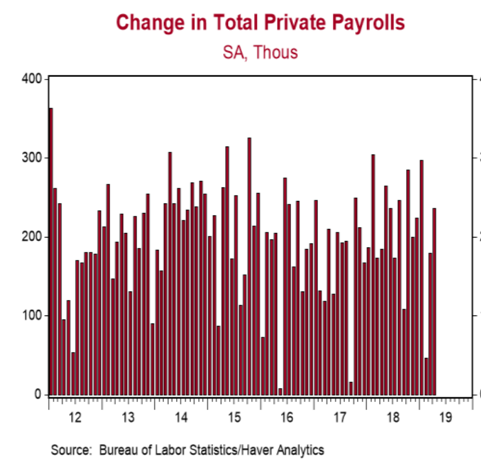
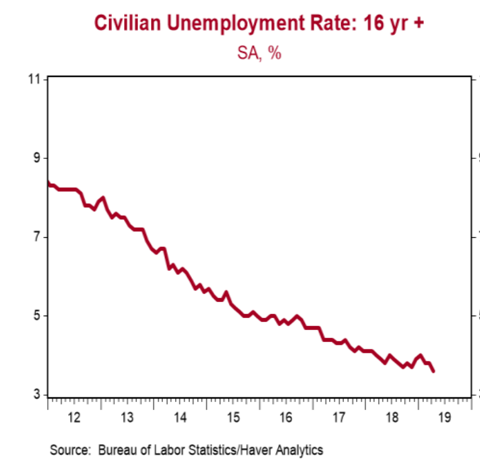
- Nonfarm payrolls rose 263,000 in April, easily beating the consensus expected 190,000. Including revisions to February/March, nonfarm payrolls increased 279,000.
- Private sector payrolls rose 236,000 in April, while revisions to the two prior months added 15,000. The largest increases in April were for professional & business services (+76,000 including temps), education & health care (+62,000), leisure & hospitality (+34,000), and construction (+33,000). The largest decline was for retail (-12,000). Manufacturing rose 4,000 while government rose 27,000.
- The unemployment rate dropped to 3.6% from 3.8% in March.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in April and are up 3.2% versus a year ago.





Implications: Today's report on the labor market was very strong, but not quite as much of a monster blowout as some are saying. Nonfarm payrolls surged 263,000 in April, beating even the most optimistic forecast from any economics group. In addition, payrolls were revised up for prior months, and are up 218,000 per month in the past year. These figures show why many analysts were so wrong to go pessimistic about the US economy late last year and early this year. Meanwhile, the unemployment rate fell to 3.6%, the lowest reading since 1969. Look for the jobless rate to eventually go below 3.5%, which would put it at the lowest level since the early 1950s. The headlines about payrolls and the drop in the unemployment rate are driving the celebration and, in fact, these numbers are worth cheering. However, a look below the hood suggests the report was not all rainbows and unicorns. The plunge in the unemployment rate came largely due to a 490,000 person decline in the labor force, which more than offset a 103,000 decline in civilian employment, an alternative measure of jobs that includes small-business start-ups. Don't get us wrong, we're still very positive on the health of the labor market, and the trends in both civilian employment and the labor force remain upward. These figures are very volatile from month to month, so we expect them to bounce back soon. This includes our outlook on wages, as well. Average hourly earnings rose a moderate 0.2% in April, versus a consensus expected 0.3%. However, it's important note that average hourly earnings are up 3.2% from a year ago, an acceleration from the 2.8% gain the twelve months ending in April 2018. The most negative news in today's report was that the total number of hours worked slipped 0.1%. However, hours worked are up 1.6% in the past year. Putting the figures on wages and hours together, total wages are up a solid 4.9% from a year ago, a healthy gain. Either way, there's nothing in today's report that suggests the Federal Reserve should cut short-term interest rates. Instead, the economy is plenty strong enough to withstand another rate hike, even though we think the Fed won't pull the trigger until the yield on the 10-year Treasury is at least 3.00%. Back in March, the Fed thought the US economy would grow only 2.1% this year, and the jobless rate would average 3.7% in the fourth quarter. Now it looks like the Fed was too pessimistic on both counts. We also think inflation will outstrip the Fed's projection. These factors are why we still believe, contrary to market expectations, that the next move by the Fed will be a hike, not a cut.

Employment Report *All Data Seasonally Adjusted*	Apr-19	Mar-19	Feb-19	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**3.6**	3.8	3.8	3.7	3.8	3.8
Civilian Employment (monthly change in thousands)	**-103**	-201	255	-16	90	156
Nonfarm Payrolls (monthly change in thousands)	**263**	189	56	169	207	218
Construction	**33**	20	-23	10	18	21
Manufacturing	**4**	0	8	4	13	17
Retail Trade	**-12**	-16	-14	-14	-1	-4
Finance, Insurance and Real Estate	**12**	13	5	10	7	9
Professional and Business Services	**76**	24	54	51	38	45
Education and Health Services	**62**	69	19	50	52	49
Leisure and Hospitality	**34**	37	-1	23	45	38
Government	**27**	10	10	16	10	11
Avg. Hourly Earnings: Total Private*	**0.2%**	0.2%	0.4%	3.1%	3.1%	3.2%
Avg. Weekly Hours: Total Private	**34.4**	34.5	34.4	34.4	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	**-0.1%**	0.5%	-0.3%	0.4%	1.3%	1.6%

*Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized*