

## Weekly Commentary with Professor Jeremy J. Siegel

### Best Possible Labor Market Report

Monday, 3/12/2018



*Jeremy Schwartz, Director of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.*

The equity markets rejoiced the best possible labor market report on Friday. This was 'the best possible' report due to both the tremendous increase in payrolls—313,000 jobs created—but also the large increase in the labor force participation rate to its highest level in 4 years. In March 2014, the labor force participation rate reached 63.1% and this week we were at 63.0%. If the U.S. economy is going to create 200,000 plus jobs a month—and this month's 300k plus number being an outlier—without putting pressures on wages—we need to see a rise in the participation rate like we did in the latest jobs report.

Wages were very stable in this report—and this is important because wage pressure was often referred to as the trigger for the market correction a month ago. The 2.9% wage print in that February report was revised down to 2.8% and now year over year average hourly earnings in this report came in at 2.6%—a moderation, and that helped fuel the rally on Friday.

The reports also revised up the hours worked from prior reports, which provides disappointing news for the level of productivity in the economy—we have all these jobs created and good hours worked, we might wonder why this is not leading to even stronger GDP growth. This news boils down to the continued undershooting of our economy on productivity potential.

There was also positive news last week on the tariff front—Trump announced some carve outs for Canada and Mexico from the steel and aluminum tariffs and the softer tone provided the market with comfort; the probability of a full scale trade war and accompanying negative fallout were diminished. With Gary Cohn leaving the white house, some feared the Peter Navarro and anti-China and trade skeptic wing would come to dominate economic policy. But Professor Siegel sees advisers Kevin Hassett and Steve Mnuchin having a more open trade mindset that will keep the trade issues in check.

This Tuesday we get a CPI report that leads to the all important March 21st Fed meeting. That meeting looks like a lock for another 25 basis point interest rate hike, but what will be interesting to watch in Professor Siegel's view is whether the Fed will choose 3 and 4 hikes this year

With Friday's strong jobs report, but also the strong labor force participation rate, the 10-year yield was quite constrained, and mid-day on Friday the 10-year yield was up only 1 basis point at 2.89%. In many ways, this helped recap the best case scenario jobs report with no further pressure on rates and equity markets responding in kind.

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