



Elliott D. Pollack & Company

The Monday Morning Quarterback

A quick analysis of important economic data released over the last week

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Friday's employment report was disappointing and it's important to provide some context. The report indicated that jobs in February grew by only 20,000 which is a striking difference to the expectation of 200,000. The February numbers follow two very strong months of employment growth. For example, in January, jobs grew by 311,000. On the positive side, the unemployment rate fell to 3.8% and wages grew by 3.4%. Wage growth was well above inflation and was one of the best reports in a decade. The report also occurred at a time when concerns about slower rates of growth in Europe and China are also being discussed. Realistically, though, there may be some very valid reasons for the shortfall from expectations:

1. There may have been double counting in the employment numbers of those government employees who took part time jobs during the shutdown.
2. This might simply be a pause after some very strong months of employment growth or a temporary response to uncertainty over tariffs.
3. It could be that labor is becoming more difficult for businesses to find.

Whatever the answer, it will take another month or two to be sure. One month doesn't make a trend. And, as stated above, there could be several plausible explanations. In any case, it is likely that, as expected, the economy is still on track for continued, slower growth this year.

The balance of other data also points to that conclusion. Productivity is up. Unit labor costs are under control. Both the manufacturing and non-manufacturing sectors continue to expand. And even housing seems to have rebounded.

It is far too early to become concerned.

U.S. Snapshot:

- Total nonfarm payroll employment was little changed in February with an increase of 20,000 jobs. This was well below expectations of about 200,000. It followed gains of 311,000 in January and 227,000 in December. For 2018 as a whole, job growth averaged 223,000 per month. In February, employment continued to trend up in professional and business services, health care, and wholesale trade. Construction employment declined.

- The unemployment rate in February declined 0.2% to 3.8%. The number of unemployed persons decreased by 300,000 to 6.2 million.
- Initial unemployment insurance claims continued to decline in early March. As expected, initial claims were a low 223,000. The key takeaway from the data is that the low level in initial claims is consistent with prior readings that have indicated a tight labor market.
- Nonfarm sector labor productivity increased 1.9% in the 4th quarter of 2018. Output grew by 3.1% and hours worked increased by 1.2%.
- Total outstanding consumer credit increased by 5.1% at an annual rate in January. Consumer credit is now 5.0% above a year ago. Revolving credit (mostly credit cards) grew at a 2.9% annual rate and is 3.2% above year earlier levels while nonrevolving credit (mostly auto and student loan debt) grew at an annual rate of 5.9% and is 5.6% higher than a year ago. Nonrevolving credit is close to three times larger than the total amount of revolving credit.
- The ISM non-manufacturing index stood at 59.7 in February. That compares to 59.1 a year ago and 56.7 in January. Any reading above 50 indicates that the non-manufacturing sector is expanding.
- Total building permits in the U.S. were 1,345,000 at an annual rate in January. This compares to 1,366,000 a year ago. Single family permits were 812,000 at an annual rate in January compared to 870,000 a year ago.
- Total construction spending in December was 1.6% ahead of year earlier levels.
- Sales of new single family houses in December were at a seasonally adjusted annual rate of 621,000. This compares to 636,000 a year ago and 599,000 in November.

Arizona Snapshot:

- Arizona's nonfarm employment was revised upward for both 2017 and 2018. The revised 2017 annual average employment was 2,777,300 jobs. That's an upward revision of 4,800 jobs or 0.2%. That brings the growth in 2018 to 2.8%. In January, jobs were up 2.8% over year earlier levels.
- In Greater Phoenix, the revisions brought total jobs in 2018 to 2,107,300. That's up 3.3% from 2017. In January, nonfarm jobs in Greater Phoenix were 3.1% higher than year earlier levels.
- In Greater Tucson, total nonfarm jobs were 381,500 in 2018. That's 1.2% above 2017 levels. In January, jobs were up 1.6% from year earlier levels.