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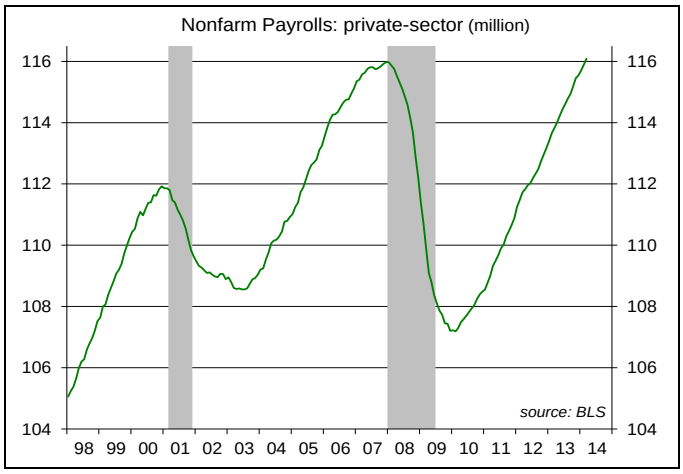
Weekly Market Monitor

The March Employment Report

Last week began with a speech by Janet Yellen. The Fed Chair was not expected to say much of consequence, but instead, she continued to emphasize the large amount of slack in the labor market and the Fed's strong commitment to reduce it. The clear implication is that short-term interest rates are not going up anytime soon. This message may have been meant to counter misconceptions taken away from her recent press conference. The March Employment Report remained consistent with the view that the labor market is improving, but we still have a very long way to go before we get back to normal conditions.

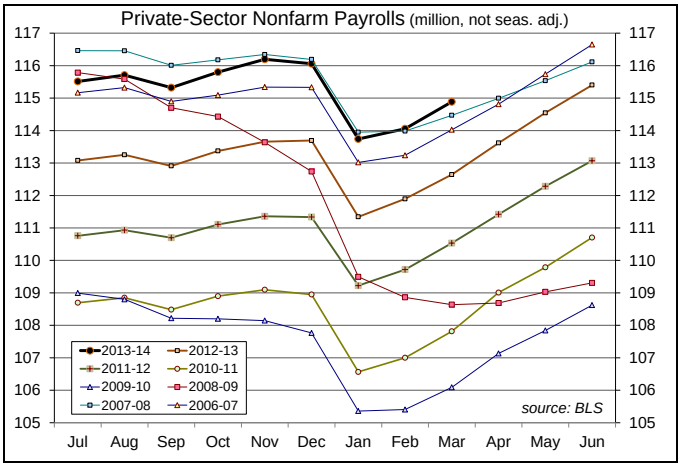
Private-sector payrolls have finally surpassed their previous peak, set just before the economy entered the Great Recession. That's good news, but we would have expected to have added more than seven million new jobs over the last six years if not for the recession. Getting back to even isn't enough. We've also lost more than 700,000 government jobs over this period (mostly in state and local government, but federal payrolls are 68,000 lower than when Obama took office). Nonfarm payrolls rose 1.7% over the 12 months ending in March, vs. growth in the working-age population of about 1.0%. Construction rose 2.6% (residential construction rose 7.9%). Manufacturing rose 0.6%, not much of a "renaissance." Employment in wholesale and retail trade rose 2.1%. Finance rose 0.7%. Temp-help jumped 9.6%, which bodes well for future permanent job gains. Leisure and hospitality rose 2.9%. Healthcare rose 1.4%. Government fell 0.1% (federal -3.0%, state and local +0.3%).



The unemployment rate held steady at 6.7% in March, but was held up by an increase in labor force participation. Don't read too much into that. It could simply reflect a rebound from poor weather. Seasonal adjustment is different across age groups and that can amplify weather effects (unemployment rates were lower in March for teenagers and those aged 25-54), but higher for young adults and the elderly).

The data for the key labor cohort, those aged 25-54 years, has shown a steeper rise in the employment/population ratio over the last several months. That's good news, and improvement may broaden out to other sectors over the next several months. However, it still suggests a very large amount of slack in the job market. In turn, that slack is limiting upward pressure on wages and salaries, which means less fuel for consumer spending growth. This should eventually take care of itself. That is, wage growth will pick up as the labor market improves, but we have a long way to go. Consumer spending accounts for 70% of the GDP, which means that the pace of the economic recovery will be slower (than if wages were rising 3% to 4% year-over-year, vs. the current pace of around 2%).

Note that some of the "improvement" in the March data merely reflects a rebound from poor weather. However, an extended period of bad weather can have a longer-lasting impact on the economy (some sales are postponed, some are lost forever). In any case, much of the March economic data will be revised. So take it all with a grain of salt.



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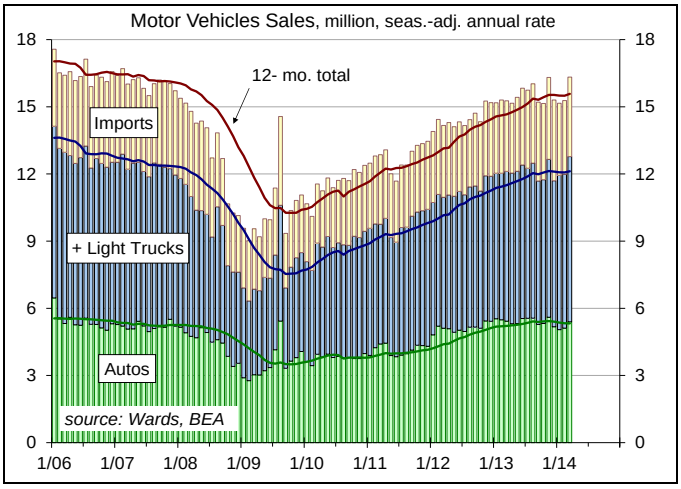
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
3/07/14	0.06	0.09	0.13	0.38	0.79	1.65	2.80	3.72	1.387	1.673	103.38	1.109	4336.22	1878.04	16452.72
3/28/14	0.02	0.05	0.11	0.46	0.95	1.79	2.80	3.62	1.375	1.664	102.92	1.107	4155.76	1857.62	16323.06
4/04/14	0.03	0.05	0.11	0.42	0.87	1.71	2.73	3.59	1.370	1.658	103.25	1.098	4127.73	1865.13	16412.97

Recent Economic Data and Outlook

Janet Yellen continued to emphasize the Fed's concerns about labor market conditions, suggesting that very accommodative monetary policy will continue for some time. The March Employment Report was about as anticipated.



Fed Chair Janet Yellen, perhaps seeking to counter any misconceptions taken from here recent press briefing (that is, the *"six months"* quote that was taken out of context), emphasized that the central bank was attempting to improve conditions on Main Street, not Wall Street. She pointed out several signs of slack in the labor market and indicated that the Fed's *"extraordinary* [policy] *commitment is still needed and will be for some time, and I believe that view is widely shared by my fellow policymakers at the Fed."*

The **March Employment Report** was relatively close to expectations. Nonfarm payrolls rose by 192,000 (vs. a median forecast of +200,000), while figures for January and February were revised a net 37,000 higher. Note that unadjusted payrolls rose by 941,000 (vs. +805,000 in March 2013). Average weekly hours rose to 34.5 (from 34.3), reflecting a rebound from poor weather in February. Average hourly earnings were flat, after rising 0.4% in February (+2.1% y/y, compared to +3% to +4% under normal labor market conditions). The unemployment rate held steady at 6.7% (median forecast: 6.6%), due to an increase in labor force participation (that would be a good thing if it continues, but one month does not make a trend).

The **Challenger Report** on corporate layoff announcements showed a decline in March (note: these figures are not seasonally adjusted). The total for the quarter was down 16% from a year ago. It was the lowest first quarter total since 1995.

The **ISM Manufacturing Index** edged up to 53.7 in March, vs. 53.2 in February and 51.3 in January. New orders and production picked up. Employment growth was modest. Comments from supply managers were generally upbeat.

The **ISM Non-Manufacturing Index** rose to 53.1 in March, vs. 51.6 in February and 54.0 in March. Business activity slowed further. New orders picked up. Employment growth was moderate (after declining in February). Comments from supply managers were consistent with moderate improvement, with some lagged impacts from adverse weather.

The **ADP Estimate** of private-sector payrolls rose by 191,000 in March, vs. +178,000 in February (revised from +139,000).

Motor Vehicle Sales jumped to a 16.3 million seasonally adjusted annual rate in March, vs. 15.3 million in February. The increase suggests that some sales were "postponed" by the weather. Note that we saw a sharp rebound in November as well, after the government shutdown limited the pace of vehicle sales in September and October.

The **U.S. Trade Deficit** widened unexpectedly to $42.3 billion in February, vs. $39.3 billion in January. Merchandise exports fell 1.5% (mostly industrial supplies and materials). Merchandise imports rose 0.1% (petroleum -2.0%, non-petroleum +0.2%). Some of the widening in the deficit may have reflected poor weather, but the figures suggest that net exports will make a significant subtraction from 1Q14 GDP growth.

The **European Central Bank** left monetary policy unchanged, but ECB President Draghi said that "the Governing Council is unanimous in its commitment to using also unconventional instruments within its mandate in order to cope effectively with risks of a too prolonged period of low inflation."

Economic Outlook (2Q14): 2.5%-3.0% GDP growth, following 1.0%-1.5% in 1Q14.

Employment: The pace of job growth has remained moderately strong despite an impact from adverse weather. Job destruction remains relatively limited. New hiring should pick up in the spring and early summer.

Consumers: Spending growth appears to have been dampened by poor weather. Wealth has increased, supporting spending. Average wage gains are barely keeping up with inflation.

Manufacturing: Recent data on new orders, production, and employment, while uneven, suggest moderate improvement in the factory sector. However, an inventory correction and global growth will be important concerns in the near term.

Housing/Construction: Higher mortgage rates and rising home prices have reduced housing affordability. Poor weather hasn't helped. Homebuilding activity is expected to improve, but supply constraints are likely to remain an issue.

Prices: The PCE Price Index, the Fed's chief inflation gauge, is trending well below the 2% goal, which will be a problem if that continues. Pipeline pressures have been modest. Wage gains are mild. Inflation expectations remain well-anchored.

Interest Rates: The tapering of asset purchases is "not on a preset course," but Fed officials anticipate further reductions "at a measured pace" (-$10 billion per FOMC meeting) – and it would take a significant change in the economic outlook for the Fed to deviate from the path. If the economy evolves as the Fed anticipates, short-term interest rates are likely to be raised by the middle of 2015. Long-term interest rates should trend gradually higher, with some volatility along the way.

This Week:					*forecast*	last	last –1	comments
Monday	4/07		no significant data					NCAA finals
Tuesday	4/08	7:30	Small Business Optimism	Mar	***93.2***	91.4	94.1	likely to rebound, but still relatively low
		9:00	IMF: World Econ Outlook					updated
		10:00	JOLTS: hiring rate	Feb	***NF***	3.3%	3.3%	trending flat over the last year
			JOLTS: quit rate		***NF***	1.7%	1.8%	still well below normal
		1:00	Treasury Note Auction					$30 billion in 3-year notes
Wednesday	4/09	1:00	Treasury Note Auction					$21 billion in re-opened 10-year notes
		2:00	**FOMC Minutes**	3/19				no new revelations
Thursday	4/10	7:00	BOE Policy Decision					the MPC is divided, no clear guidance
		8:30	Jobless Claims, th.	4/05	***320***	326	310	subject to start-of-quarter volatility
		8:30	Import Prices	Mar	***NF***	+0.9%	+0.4%	oil prices moderated
			ex-food & fuels		***NF***	0.0%	+0.3%	no significant pressure
		1:00	Treasury Bond Auction					$13 billion in re-opened 30-year bonds
		2:00	Treasury Budget, $bln	Mar	***NF***	-106.5	-198.2	some spending shifted into February
Friday	4/11	8:30	**PPI – Final Demand Goods**	Mar	***+0.1%***	-0.1%	+0.2%	mixed pressures from food & energy
			ex-food & energy		***+0.1%***	+0.2%	+0.4%	a moderate trend
			PPI – Final Demand Services		***+0.1%***	-0.3%	+0.1%	a mild trend
		9:55	Consumer Sentiment	m-Apr	**82.0**	80.0	81.3	likely to improve
Next Week:								
Monday	4/14	8:30	**Retail Sales**	Mar	***+1.0%***	+0.3%	-0.6%	unit auto sales jumped
			ex-autos		***+0.6%***	+0.3%	-0.3%	some rebound from weather effects
			ex-autos, bld mat, gasoline		***+0.7%***	+0.3%	-0.6%	better, but a lackluster quarter
		10:00	Business Inventories	Feb	***NF***	+0.4%	+0.5%	filling in the 1Q14 GDP picture
Tuesday	4/15	8:30	**Consumer Price Index**	Mar	***+0.1%***	+0.1%	+0.1%	seasonal factors to trim gasoline
			year-over-year		***+1.4%***	+1.1%	+1.6%	a low trend
			ex-food & energy		***+0.1%***	+0.1%	+0.1%	mild core inflation
			year-over-year		***+1.6%***	+1.6%	+1.6%	still low
		8:30	Real Weekly Earnings	Mar	***+0.4%***	0.0%	+0.1%	nominal earnings rose 0.5%
		8:30	Empire St. Manf. Index	Apr	***8.2***	5.6	4.5	moderately strong
		10:00	Homebuilder Sentiment	Apr	***50***	47	46	likely to pick up
Wednesday	4/16	8:30	**Building Permits**, th.	Mar	***985***	1014	945	volatility in multi-family
			% change		***-2.9***	+7.3	-4.6	a rebound from weather otherwise
			Housing Starts		***945***	907	909	a bounce back from poor weather
			% change		***+4.2***	-0.2	-11.2	but watch for revisions
		9:15	**Industrial Production**	Mar	***+0.5%***	+0.6%	-0.2%	not as unseasonably cold
			Manufacturing Output		***+0.8%***	+0.8%	-0.8%	aggregate manufacturing hours rose 0.7%
			Capacity Utilization		***79.1%***	78.8%	78.5%	still no threat to the inflation outlook
		10:00	BOC Policy Decision					no change
		2:00	**Fed Beige Book**					should see improvement
Thursday	4/17	8:30	Jobless Claims, th.	4/12	***315***	***320***	326	a low trend
		10:00	Philadelphia Fed Index	Apr	***8.5***	9.0	-6.3	moderate
		1:00	TIPS Auction					5-year TIPS
		2:00	Early Bond Mkt Close					recommended by SIFMA
Friday	4/18		**Good Friday Holiday**					markets closed

This Week…

The economic calendar thins out considerably. The FOMC minutes ought to garner some interest. Given Yellen's press conference, there shouldn't be much suspense. On the other hand, there's a good chance that the markets (and the financial press) could take some particular line out of context.

Monday

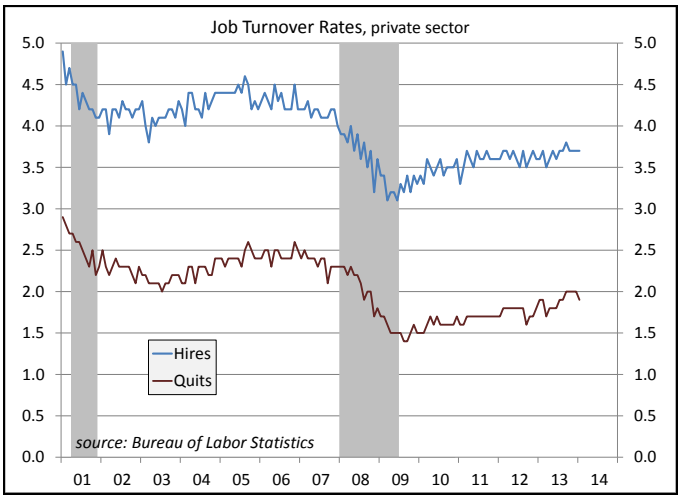
No significant economic data. The NCAA tournament ends. Note that up to the Final Four, exactly one third of the games (20 out of 60) were won by the lower-seeded team.

Tuesday

Small Business Optimism Index (March) – The headline figure has continued to suggest a concerned outlook for small business. Weather was likely a limiting factor in February. However, the earnings trend has been weak for some time. Credit availability is still an issue for many small firms, but plans for hiring and capital spending have been moderate.

IMF World Economic Outlook (update) – The IMF will revise its projections for global growth. Last week, the IMF released its two analytic chapters on global real interest rates and emerging markets (good stuff, as usual).

JOLTS Data (February) – These data ought to get more scrutiny from the markets since Yellen highlighted them. Hiring and quit rates are still far below where they should be according to Yellen, but we're unlikely to see a sharp pickup anytime soon. The recent data have continued to suggest a low rate of job destruction, but a subpar pace of hiring.

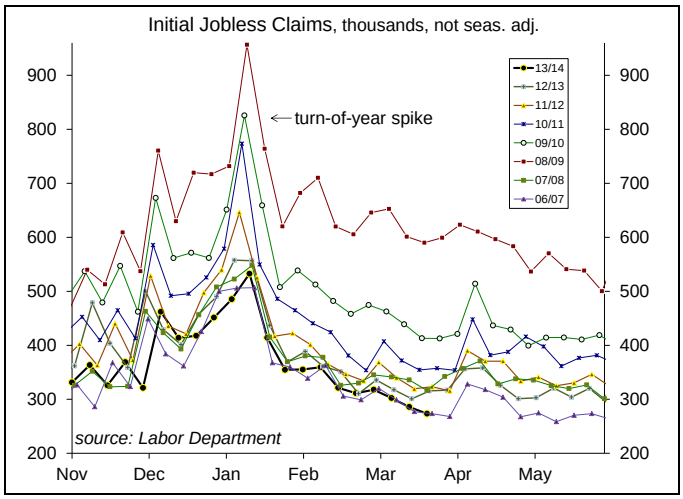


Wednesday

FOMC Minutes (March 18-19) – There's very little suspense around the Fed policy meeting minutes these days. Fed Chair Yellen has already spoken about what went on. The Fed publishes revised economic projections of senior officials. Yet, the markets don't do nuance, which is what the Fed has to deal with. There's a good chance (as we saw in Yellen's press conference) that something may be taken out of context.

Thursday

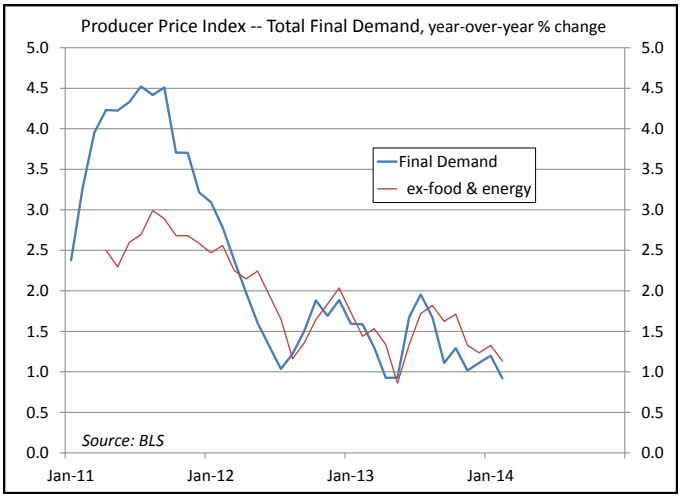
Jobless Claims (week ending April 5) – The claims data are generally subject to less seasonal noise in the spring, but there are a couple of exceptions. One is Easter, which can create some distortions in the reported figures. The other is state-level adjustments that occur in the first week of a quarter. Specifically, some states wait until the beginning of a quarter to make corrections, typically for under-reported claims in prior weeks. Hence, there's a little bit of a bump in the unadjusted figures in the first week of the quarter. The seasonal adjustment should anticipate this, but we often see a brief pickup as the quarter gets underway (and a retreat back to trend in the following week). So take any increase in the reported figure with a grain of salt. The underlying trend is expected to remain low in near term. Job destruction remains limited, but new hiring is the key to labor market improvement.



Import Prices (March) – Recent reports have shown an absence of inflation pressures from abroad. Import prices have been low or falling across the board (industrial materials, finished goods).

Friday

Producer Price Index (March) – Despites a dramatic increase in scope, the "new and improved" PPI data have failed to make much of a splash with financial market participants. That's largely because higher inflation is not a significant worry in the near term. There's not much inflation pressure "in the pipeline" and Fed officials expect the PCE Price Index to trend at or below the official 2% target for the next few years. It would be a different story if inflation were running a lot higher. The PPI figures are expected to remain relatively low in March.



UM Consumer Sentiment (mid-April) – Better weather should contribute to an improvement in consumer attitudes.

Next Week …

The economic calendar picks up again. Retail sales kick off the week and we should see a clear rebound from weather effects. The Consumer Price Index is likely to show a continued low trend in inflation. Other data may be a bit mixed.

Coming Events and Data Releases

April 22	Existing Home Sales (March)
April 23	New Home Sales (March)
April 24	Durable Goods Orders (March)
April 29	Consumer Confidence (April)
April 30	Real GDP (1Q14, advance estimate) FOMC Policy Decision (no press conference)
May 2	Employment Report (April)
June 7	Employment Report (May)
June 18	FOMC Policy Decision, Yellen press conference
July 30	FOMC Policy Decision (no press conference)
September 17	FOMC Policy Decision, Yellen press conference