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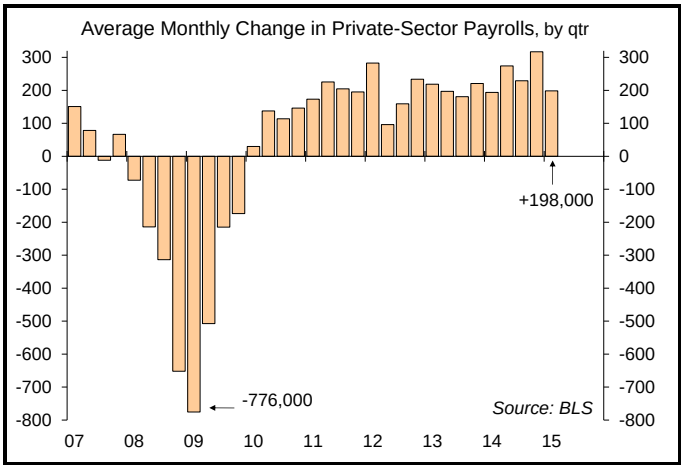
Weekly Economic Monitor

March Employment Report – Fear vs. Hope

The nonfarm payroll data for March were disappointing. Job growth was substantially less than expected and figures for the first two months of the year were revised lower. These data fit in with the general theme of other recent economic reports. Growth slowed in the first quarter, reflecting bad weather and the negative impacts of a stronger dollar and lower oil prices. Growth is still widely expected to pick up in the spring, but for investors, that may begin to feel more a matter of faith.

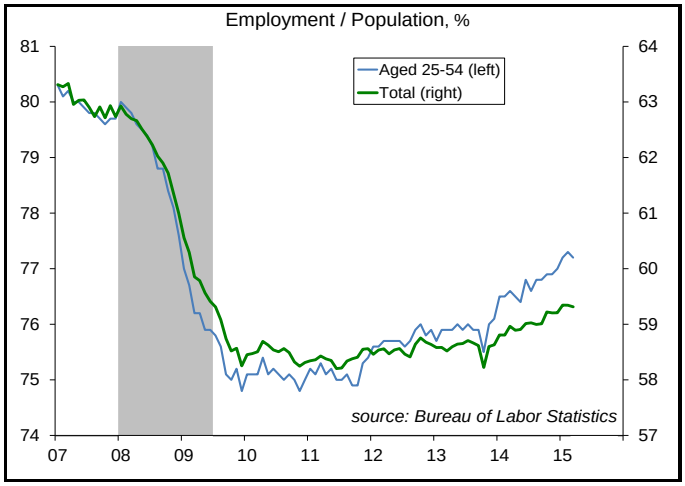


Payrolls advanced by 126,000 in the initial estimate for March, about half the expected gain. Simply looking at the payroll graph suggests that we may be seeing a statistical moderation. There's a fair amount of statistical uncertainty in the payroll figures. The monthly estimate is reported accurate to ±105,000 (for those of you who stayed awake in your statistics class, that is a 90% confidence interval). It's not unusual to see the payroll figures bunch a bit higher or lower than the underlying trend. In other words, a strong quarter of payroll growth is often followed by a softer quarter. That doesn't mean that job growth has necessarily "slowed."

The impact of the weather can seem a bit quirky in the payroll reports. The payroll survey covers the pay period that includes the 12th of the month. That can vary from firm to firm (depending on whether workers are paid weekly or semi-monthly). The BLS noted that the survey period dodged the bad weather in February, but was not so lucky in March. The household survey, which covers the week of the 12th, showed that 328,000 people could not get to work due to bad weather in February, compared to a 387,000 average over the 10 previous Februarys. In March, 182,000 could not get to work due to bad weather, versus a 150,000 average over the past 10 years). So we went from better-than-normal weather in February to worse-than-normal weather in March. That may explains some of the shortfall in payrolls for March. Note that these are unadjusted figures from a different survey and are not directly comparable to the nonfarm payroll data, but suggest that we may see a weather-related rebound in April payrolls.

The stronger dollar and the decline in oil prices have both positive and negative effects on the economy. It's likely that the negative effects are showing up more quickly than the benefits. The decrease in energy exploration is seen in the drop in mining payrolls (-11,100 in March, -11,100 in February, -7,400 in January). While perhaps devastating to local economies (these are high-paying jobs that are being lost), it is tiny on a national scale (about 0.02% of total payrolls). Even accounting for multiplier effects, the impact on total payrolls is small. The bigger impact from the retreat in energy exploration will come in capital spending. Note that the stronger dollar has hit corporate profits. Corporate profits are a key driver of capital spending and new hiring. This will show more at larger firms. Unlike the official BLS data, the ADP estimate of private-sector payrolls provides a breakout by size of firm. The March report showed a sharp slowing in job gains at large firms, but continued strength in hiring for small and medium-sized firms.

Job growth has been strong over the last year (over 3.1 million, or 2.3%). Combined with the increase in purchasing power from lower gasoline prices, consumer spending should be picking up. Consumer spending accounts for 70% of Gross Domestic Product, so the benefits of lower gasoline prices should offset the negative effects of the stronger dollar.



The general theme of recent data reports should make Fed policymakers less inclined to raise short-term interest rates this summer. The Fed is still justified to plan for policy normalization and to return to "business as usual" in June (that is, considering whether to raise rates on a meeting-by-meeting basis). However, the monetary policy outlook will depend critically on the upcoming economic data and signs of a spring awakening.

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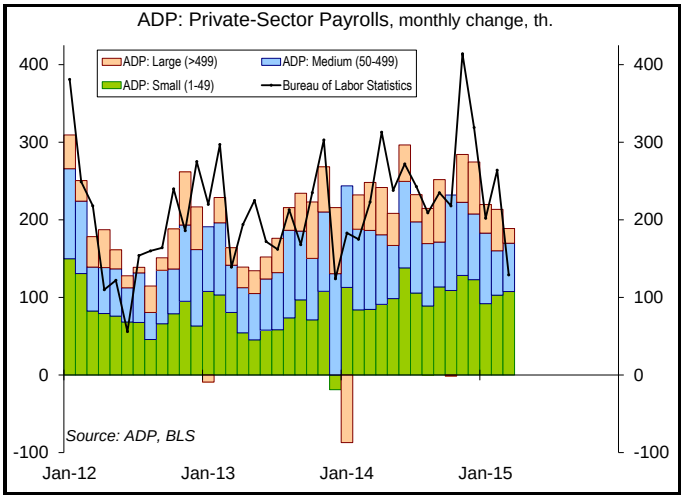
	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	$/Euro	$/BP	JY/$	CD/$	NASD	SPX	DJIA
3/06/15	0.01	0.08	0.27	0.73	1.16	1.70	2.24	2.83	1.086	1.506	120.93	1.262	4927.37	2079.43	17856.78
3/27/15	0.04	0.12	0.27	0.58	0.92	1.42	1.95	2.53	1.089	1.488	119.15	1.258	4891.22	2061.02	17712.66
4/03/15	0.02	0.10	0.21	0.48	0.79	1.26	1.84	2.49	1.097	1.490	119.03	1.247	4886.94	2066.96	17676.00

Recent Economic Data and Outlook

The economic data were mixed, but the weaker figures captured most of the market's attention. The March nonfarm payroll data were a lot softer than anticipated, but were not horrible.



The March **Employment Report** was disappointing relative to expectations, but not a disaster. Nonfarm payrolls rose by 126,000, well below the median forecast (+245,000). Figures for January and February were revised a net 69,000 lower. The unemployment rate held steady, despite a decline in labor force participation. Average weekly hours edged lower, likely reflecting the weather. Average hourly earnings rose 0.3%, up 2.1% y/y (note that the CPI is trending about flat y/y).

The **ADP Estimate** of private-sector payrolls rose by 189,000 in March. The report showed continued strength in hiring at small and medium-sized firms, but a sharp slowing for large firms.

Personal Income rose 0.4% in February, following a 0.4% rise in January (+4.5% y/y). **Personal Spending** edged up 0.1% (+3.3% y/y), reflecting a 3.4% rise in expenditures on gasoline (spending was flat otherwise). Adjusting for inflation, consumer spending slipped 0.1% in February (+3.0% y/y) – on track for about a 2.0% annual rate in 1Q15 (vs. +4.4% in 4Q14). The **PCE Price Index** rose 0.2% (+0.171% before rounding, +0.3% y/y), up 0.1% (+0.134% before rounding, +1.4% y/y) ex-food & energy.

The Conference Board's **Consumer Confidence Index** rose to 101.3 in the initial estimate for March, vs. 98.8 in February (revised from 96.4) and 103.8 in January. Evaluations of current labor market conditions were little changed, but respondents were more optimistic about future job availability and generally expected household income to improve.

Unit Auto Sales rose to a 17.1 million seasonally adjusted annual rate in March, vs. 16.2 million in February. Sales of domestically built vehicles rose to a 13.4 million pace, vs. 12.8 million in February and 12.8 million a year ago.

The **ISM Manufacturing Index** fell to 51.5 in March, vs. 52.9 in February and 53.5 in January. New orders slowed. Employment was flat. Input prices continued to retreat. Comments from supply managers were mixed, with further references to West Coast port delays. Export orders fell.

The **Chicago Purchasing Managers Index** edged up to 46.3 in March, vs. 45.8 in February, as respondents continued to cite adverse weather and West Coast port delays,

The **Pending Home Sales Index** rose 3.1% in February, following a 1.2% gain in January – up 12.0% y/y. Results were mixed across regions in February (-2.3% in the Northeast, +11.6% in the Midwest, -1.4% in the South, and +6.6% in the West), but all were higher than a year ago (+4.1% in the Northeast, +13.8% in the Midwest, +10.8% in the South, and +18.3% in the West).

The U.S. **Trade Deficit** narrowed to $35.4 billion in February, vs. $42.7 billion in January. While the trade deficit fell in nominal (current-dollar) terms in the first two months of the first quarter, it widened a bit in real (constant-dollar) terms – hence, is expected to subtract a little from 1Q15 GDP growth.

Economic Outlook (2Q15): About a 3.0% annual rate, following around 0.5% in the first quarter.

Employment: The pace of job growth slowed in 1Q15, but from an unusually strong pace in 4Q14. Job losses remain very limited. New hiring appears to have remained strong for small and medium-sized firms, but has slowed for larger firms.

Consumers: The drop in gasoline prices from last summer has sharply boosted consumer purchasing power and we should see a pickup in spending in the spring and early summer.

Manufacturing: The stronger dollar is a constraint. A decline in corporate profits has contributed to a softening trend in capital spending. Domestic demand should be picking up.

Housing/Construction: The spring is a critical time for home sales and residential construction activity. Will this be the year housing takes off? We should see good improvement in the near term, but we're still years away from a full recovery.

Prices: The PCE Price Index is about flat year-over-year – and the core inflation rate has moved lower in recent months. Pipeline pressures are mild. Wage pressures are limited. Inflation expectations remain well-anchored.

Interest Rates: With low inflation and a still-elevated level of slack in the economy, the Fed does not have to hit the brakes, but it does need to consider when to take the foot off the gas pedal. The Fed needs to see further improvement in the job market and has to be "reasonably confident" that inflation will move back toward the official 2% goal.

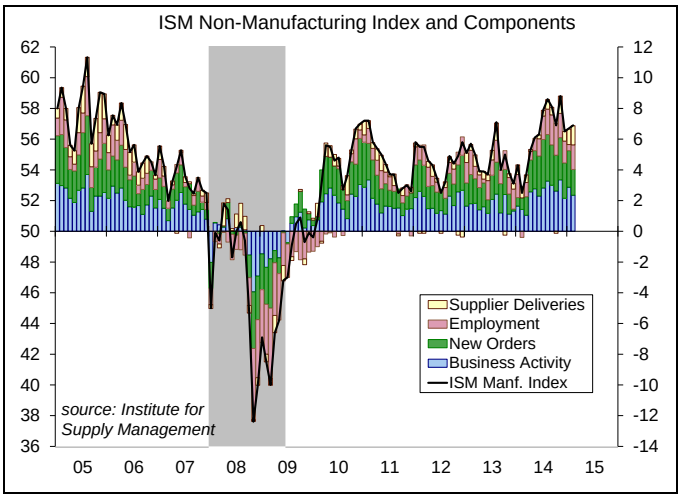
This Week:					*forecast*	last	last –1	comments
Monday	4/06	10:00	**ISM Non-Manf Index**		***57.4***	56.9	56.7	thawing out
		9:00	NCAA Championship					(K or Wisc) vs. (D-D-D-Duke or MSU)
Tuesday	4/07	10:00	JOLTS: hiring rate	Feb	***NF***	3.4%	3.4%	trending gradually higher
			JOLTS: quit rate		***NF***	2.2%	2.2%	but still below normal
		1:00	Treasury Note Auction					$24 billion in 3-year notes
Wednesday	4/08	8:00	Fed Gov Powell Speaks					*"Challenges for Monetary Policy"*
		1:00	Treasury Note Auction					$21 billion in re-opened 10-year notes
		2:00	FOMC Minutes	3/18				few new revelations
Thursday	4/09	8:30	Jobless Claims, th.	4/04	***294***	268	288	a low trend (watch for revisions)
		1:00	Treasury Bond Auction					$13 billion re-opened 30-year bonds
Friday	4/10	8:30	Import Prices	Mar	***NF***	+0.4%	-3.1%	oil less of a factor
			ex-food & fuels		***NF***	-0.3%	-0.5%	falling
		2:00	Treasury Budget, $bln	Mar	***NF***	-36.9	-106.5	not market-moving
Next Week:								
Monday	4/13		no significant data					1796: first elephant arrives in the U.S.
Tuesday	4/14	7:30	Small Business Optimism	Mar	***NA***	98.0	97.9	should improve
		8:30	**Producer Price Index**	Mar	***+0.2%***	-0.5%	-0.8%	moderate
			ex-food & energy		***+0.0%***	-0.5%	-0.1%	still low
			ex-f, e, trade services		***+0.1%***	0.0%	-0.3%	mild "new core" inflation
		8:30	**Retail Sales**	Mar	***+0.7%***	-0.6%	-0.8%	unit auto sales rebounded
			ex-autos		***+0.5%***	-0.1%	-1.1%	gasoline not much of a factor
			ex-autos, bld mat, gasoline		***+0.5%***	-0.1%	-0.1%	core spending should pick up
		10:00	Business Inventories	Feb	***NF***	-0.1%	+0.0%	helping to fill in 1Q15 GDP picture
Wednesday	4/15	7:45	ECB Policy Decision					QE still on track
		8:30	Empire St. Manf. Index	Apr	***8.0***	6.9	7.8	moderate
		9:15	**Industrial Production**	Mar	***-0.2%***	+0.1%	-0.3%	seen lower
			manufacturing output		***+0.1%***	-0.2%	-0.3%	aggregate hours fell 0.2%
			Capacity Utilization		***78.5%***	78.9%	79.1%	expected to have fallen
			manufacturing		***78.0%***	78.1%	78.4%	no threat to the inflation outlook
		10:00	BOC Policy Decision					still in neutral
		10:00	Homebuilder Sentiment	Apr	***56***	53	55	should improve (this time for sure)
		2:00	**Fed Beige Book**					likely to be a mixed bag
Thursday	4/16	tbd	G-20 FMs and CBs meet					anything to say about the dollar?
		8:30	Jobless Claims, th.	4/11	***285***	***294***	268	Easter adjustments add uncertainty
		8:30	**Building Permits, th.**	Mar	***1095***	1092	1060	single-family up, multi-family down
			% change		***+0.3***	+3.0	0.0	likely to accelerate further in 2Q15
			Housing Starts		***1065***	897	1081	should bounce back sharply
			% change		***+18.7***	-17.0	0.0	but watch for revisions to February
		10:00	Philadelphia Fed Index	Apr	***7.5***	5.0	5.2	moderate
Friday	4/17	8:30	**Consumer Price Index**	Mar	***+0.2%***	+0.2%	-0.7%	gasoline up but in line w/ seas adjustment
			year-over-year		***+0.1%***	-0.0%	-0.1%	still roughly flat y/y
			ex-food & energy		***+0.1%***	+0.2%	+0.2%	mild core inflation
			year-over-year		***+1.6%***	+1.7%	+1.6%	still a low trend
		8:30	Real Hourly Earnings	Mar	***+0.0%***	-0.1%	+1.2%	nominal earnings rose 0.3%
		9:55	UM Consumer Sentiment	m-Apr	***94.5***	93.0	91.2	likely to improve
		10:00	Leading Econ Indicators	Mar	***+0.4%***	+0.2%	+0.2%	components mostly positive

This Week…

The economic calendar is thin. The stock market, which was closed on Good Friday, will get its chance to react to the March Employment Report (equities are expected to open sharply lower in response to the disappointing payroll numbers). The ISM Non-Manufacturing Index has some potential to surprise. Minutes from the March 15-18 Fed policy meeting should contain no new revelations, but we'll get a little more color on the Fed's forecasts (recall that those projections put rate hikes on a lower expected path). Things will heat up again in the following week, as the mid-month economic data will be watched for signs of an expected spring pickup in growth.

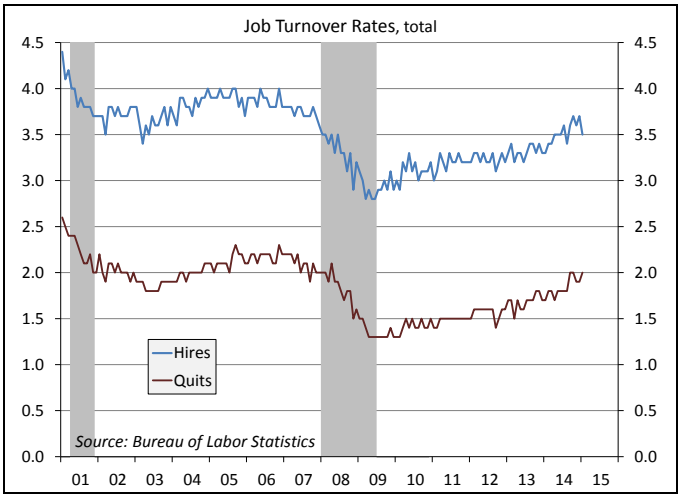
Monday

ISM Non-Manufacturing Index (March) – The February figures were a bit better than anticipated, with details that were consistent with moderate overall growth. With softness seen in several economic reports in recent weeks, investors will be looking for signs of a pickup in growth in the spring. Seasonal adjustment can be tricky and there's a good chance for a surprise in the figures for March. As with the ISM's manufacturing survey, the headline figures do not measure actual activity, but only provide a general impression of overall strength. One should take the numbers with a grain of salt, but the financial markets are likely to react to any surprise.



Tuesday

Job Opening and Labor Turnover Survey (February) – Fed Chair Janet Yellen highlighted the JOLTS data several months ago, noting that hiring and quit rates are important gauges of the labor market's strength. However, these figures tend to move glacially. Recent figures have told us essentially what we already knew. That is, the labor market is improving, but a considerable amount of slack remains. The Fed's decision to begin raising short-term interest rates will depend largely on the view of how much slack is in the labor market and expectations of how rapidly that slack will be reduced over the coming year



Wednesday

Fed Governor Powell Speaks – Get out your hymnals. Fed officials are now singing from the same page. Powell, speaking specifically on monetary policy, is expected to repeat the notion that economic conditions are likely to warrant an initial hike in short-term interest rates by the end of the year (but no hurry).

FOMC Minutes (March 17-18) – We have the Fed's economic projections in hand. We've already heard from Chair Yellen, Vice Chair Fischer, and other Fed officials on the outlook for monetary policy. We're unlikely to learn much new from these minutes. However, there's always a chance that the financial markets will take something out of context. The minutes will provide a little more color on the Fed's economic projections.

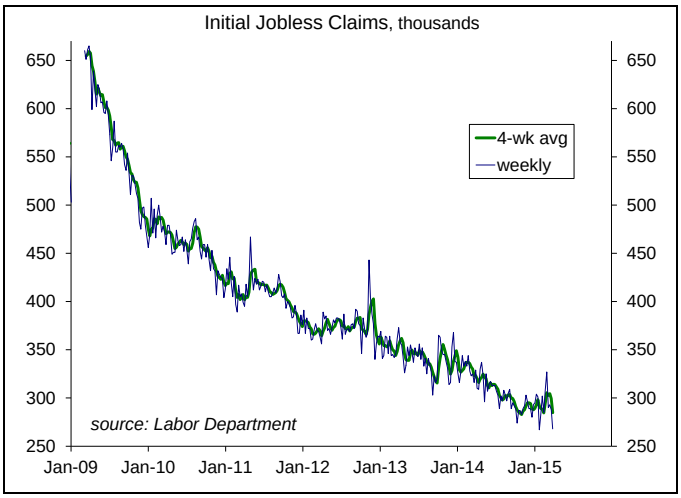
Federal Reserve's Summary of Economic Projections:

	2015	2016	2017	long run
Real GDP (4Q/4Q)	**2.3-2.7%**	**2.3-2.6%**	**2.0-2.4%**	**2.0-2.3%**
Dec Projections	*2.6-3.0%*	*2.5-3.0%*	*2.3-2.5%*	*2.0-2.3%*
Unemp. Rate (4Q)	**5.0-5.2%**	**4.9-5.1%**	**4.8-5.1%**	**5.0-5.2%**
Dec Projections	*5.2-5.3%*	*5.0-5.2%*	*4.9-5.3%*	*5.2-5.5%*
PCE Price Inf. (4Q/4Q)	**0.6-0.8%**	**1.7-1.9%**	**1.9-2.0%**	**2.0%**
Dec Projections	*1.0-1.6%*	*1.7-2.0%*	*1.8-2.0%*	*2.0%*
Core PCE Infl. (4Q/4Q)	**1.3-1.4%**	**1.5-1.9%**	**1.8-2.0%**	
Dec Projections	*1.5-1.8%*	*1.7-2.0%*	*1.8-2.0%*	

*These are central tendency forecasts, which exclude the three lowest and three highest forecasts of the Fed governors and 12 district bank presidents.

Thursday

Jobless Claims (week ending April 4) – Claims have settled back to a low level following a weather-related increase in February.



Friday

Import Prices (March) – Prices of imported raw materials, parts, and finished goods have been trending lower.

Next Week …

The economic calendar picks up, with important data for March. The retail sales report should be the highlight.

Coming Events and Data Releases

April 24	Durable Goods Orders (March)
April 29	Real GDP (1Q15, advance estimate) FOMC Policy Decision (no press conference)
May 8	Employment Report (April)
June 17	FOMC Policy Decision, Yellen press conference
July 29	FOMC Policy Decision (no press conference)
September 17	FOMC Policy Decision, Yellen press conference
October 28	FOMC Policy Decision (no press conference)
December 16	FOMC Policy Decision, Yellen press conference