Trust Matters by Dave Helscher

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In these pages a few weeks ago, appeared a quip from Charles Dickens, "It was one of those March days when the sun shines hot and the wind blows cold: when it is summer in the light, and winter in the shade". The same might be said about the employment situation in the U.S. and conundrum facing the Federal Reserve.

After a disappointing February jobs report, March showed a rebound with the economy adding 242,000 jobs, the unemployment rate held at 4.9% and the labor participation rate moved up to 62.9%, its best quarterly reading since 2010. This returns job growth well above the pace needed to absorb growth in the labor force and suggests conditions are improving so that discouraged workers are returning to the labor market. You could almost hear a collective sigh of relief from the Fed, with these figures confirming, for now, their December liftoff of rates was not a mistake. The Fed operates with a dual mandate of full employment and containing inflation.

The latest numbers were not all clear, blue skies. The year-to-year increase in hourly earnings came in at 2.2%, decelerating from the last three months average. Unrelated to the various jobs reports, the IRS releases figures on individual tax receipts and withholding. The five year run rate on a quarterly rolling average is 5.1% ending in February. The latest quarterly figure is slightly above 3.5%, meaning the growth tax receipts and withholding has slowed. There may be several explanations: the types of jobs created may be lower paying than average; or, pace of job growth may have been slowing before official employment reports picked this up in this year's first quarter; or employers may be in process of controlling direct employee costs. In addition, tax

refunds are running a little behind last year, 2.9% lower than last year. Total returns processed were also down 1%, and the total returns receiving a refund are also down 1% from 2015 and the average refund flat to last year's amount. Still, we have a month to go before the tax filing deadline and early indications are more people are filing their own returns, up 3.8%.

Even with the unemployment rate at 4.9%, there is variance across regions, age groups and education levels. The unemployment rate in 36 states remains higher than pre-recession lows. Some of this impact can be attributed to the energy sector in some states, or the slowdown in exports for states with ports and those with manufacturing primarily for export, or the decline in commodity prices and reduction in labor demand as a result. The unemployment rate has declined over all age groups from the highs during the height of the recent recession but joblessness is still higher for the age cohort thought of as including peak earning years. Education levels also play a part as those with higher education levels have moved close to pre-recession lows but no so much for those with more modest schooling.

The Fed and its monetary policies can directly affect interest rates but not the labor market or employment rates directly. If a change in interest rates affects credit conditions or asset values, any boost in the wealth effect may influence spending which in turn can lift production and demand for labor. The Fed's policies are applied uniformly across the country and do not favor one region or industry. This is especially important in our globalized world and economy. Finally, monetary policy does not directly address structural unemployment, due to a mismatch of job skills, regulation or

workforce demographics. Many of these factors are long cycle forces at play, such as the aging of the population.

These are some of the issues that confront the Federal Reserve and its Open Market Committee (FOMC) when considering any further actions on short term interest rates at their next meeting on March 15 and 16. These are some of the factors for one part of the Fed's mandate, employment. Some of these same factors come into play in controlling inflation, such as the value of the dollar and the actions of other global central banks moving to negative interest rates. At present the FOMC appears to have adopted a minimalist and cautious policy, relying on economic data to guide their actions. A "ho-hum" labor market would indicate that they would not be in any hurry to reduce its accommodative policy or raise interest rates. Yet another English author has advised to beware the Ides of March.