

October 2017

Halloween is upon us, a festival of tricks and treats. Each of us is left to guess, or pretend to guess, who the goblin is behind the mask or what the costume represents. I find that I am increasingly out of touch with popular culture and often clueless as to what the costume is or what it is meant to be.

Financial markets find themselves a victim of the calendar as well, dealing with mostly tricks. The government's September establishment survey reflected a weaker than expected loss of 33,000 jobs, the first outright decline in job creation since 2010. Yet the financial markets hardly reacted to what should have been a scary headline number. This was due mostly to what is hoped to be a temporary labor dislocation caused by hurricanes affecting Texas and Florida.

It was estimated that 1.47 million people were unable to get to work last month due to weather factors. In the case of Florida, a large number of restaurant, hospitality and travel industry employees were put out of work due to Hurricane Irma. Many leisure employees work in Florida, think Disneyworld, cruise lines, etc. This category lost 111,000 jobs in September, following several months of adding employees. Typically, for September, 80,000 employees can't work due to weather. Analysts and commentators expect a sharp rebound in these numbers in the coming months as employees return to work.

For many months, the number of initial weekly jobless claims has been declining. In fact the August survey week figure came in at a 40 year low, 232,000 claims. These figures became distorted by weather factors, spiking at 298,000 claims for the week ending September 2, before retreating in subsequent weeks.

Despite this cruel trick, September numbers also produced some treats. The household survey showed a gain of 906,000 jobs. The methods of data collection and those surveyed differs between the two surveys. The unemployment rate, based on the household survey, declined to a 16-year low of 4.2. The labor impairment rate, sometimes called the total rate of unemployment or the underemployment rate, hit a 10-year low of 8.3%. The labor force participation rate rose to a 3-year high of 63.1%.

Wages grew, on a year over year basis, 2.9%, the best showing in 8 years. Hourly wages rose 0.5% on a month over month basis. But even this number is suspect as many lower wage jobs were disproportionately affected by weather, restaurants, leisure, etc. In addition, retail jobs continued to decline for the 8th straight month. Still, a separate report, Job Openings and Labor Turnover Survey (JOLTS), reports job openings continuing to rise while hiring remained flat. This would indicate that companies continue to experience problems finding workers with the right skills.

Most analysts are willing to disregard the labor and jobs reports for September because of the weather related distortions. This follows the August reports that have historically been out of line with trends. Without good information and data, the decision the Federal Reserve makes becomes more difficult. Following the September meeting of the Federal Reserve Open Market Committee (FOMC), the markets had generally assumed another interest rate hike in December, close to 90% probability.

However, with the distorted jobs reports and suspect wage inflation information, along with the release of the minutes of the FOMC meeting in September, it appears the Fed will be more circumspect in hiking rates in December. The bond market had experienced a recent sell off with yields on the 10-year U.S. Treasuries had risen from about 2.0% in early September to 2.40% earlier this month. The yields have backed off some since the release of the FOMC minutes.

So despite all the data and the Fed's dependence on this data in deciding when to continue normalizing interest rates, we are left guessing when the next move will occur. You can prepare ahead of time with purchasing candy for the trick or treaters based on historic turnout, but if Halloween turns out to be wet and cold, your projections are likely to be subject to distortions. But then, the excess left overs can still be put to good, and tasty, use.