Economic and Market Insights

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Slow and Steady Employment Growth Is Better Than Boom and Bust

The government's jobs report last Friday was the weakest since December 2013, but in the long run it simply gives the Federal Reserve (Fed) more runway to work with in determining the timing of anticipated interest rate hikes.

Slow and steady economic growth is always preferred to a boom and bust cycle. The cooldown in the first-quarter GDP performance simply reminds the Fed once again it will need to grease the landing as it seeks to normalize interest rates, which it likely will still attempt sometime later in the second half of the year.

While U.S. markets may yo-yo as a result in the near term, the impact of this most recent jobs report will fade quickly. The second-quarter GDP performance will likely be stronger than the first quarter's – probably heading toward a more robust 3% annual clip.

Why the temporary cooldown in the jobs report in the first quarter?

- Like last year, the frigid weather and record snowfall on the East Coast again made its presence felt in the economy. When offices, manufacturers, airlines, shops, restaurants and harbors are closed in the East with the cold, the rest of the country gets the shivers.
- And on our West Coast, where our weather was sunny, we had cargo ships backed up for miles as our largest ports were stalled with a backlog of imports and exports due to a work stoppage.

- The increasing strength of the U.S. dollar has acted as the equivalent of several interest rate hikes already, giving the Fed a sneak preview of how additional increases in interest rates might actually resonate through the economy. It's tougher for us to sell our products globally when foreign customers have to pay in dollars that cost more to obtain in their own currencies.
- The sharp drop in the price of oil is reverberating through every tier of the petroleum industry – from oil frackers in Wyoming to the drillers, service providers and steel pipe makers. The decline in big oil's first-quarter earnings is a near-term negative impact, while the benefits of lower energy prices will be spread out the rest of the year.

While these factors gave the stock market future's indices an initial scare, the overall dynamic for our modest but self-sustaining economic expansion remains in place for the time being. Importantly, if we look beyond the employment report at other job-related measures, we don't find any material slowdown: Initial unemployment claims are the lowest since the recovery began; job openings are at record levels; workers are leaving jobs for new ones at about an average clip; and employment surveys for future hiring are strong.

With the Fed's dual mandate of full employment and stable (2%) inflation, this report suggests that even though the word "patient" was removed from its most recent statement, the economic data still shows no signs of rising wage inflation -- which likely affords the Fed even more time to be cautious as it approaches the decision to raise rates.