



Analyzing the Numbers*

Morning Note

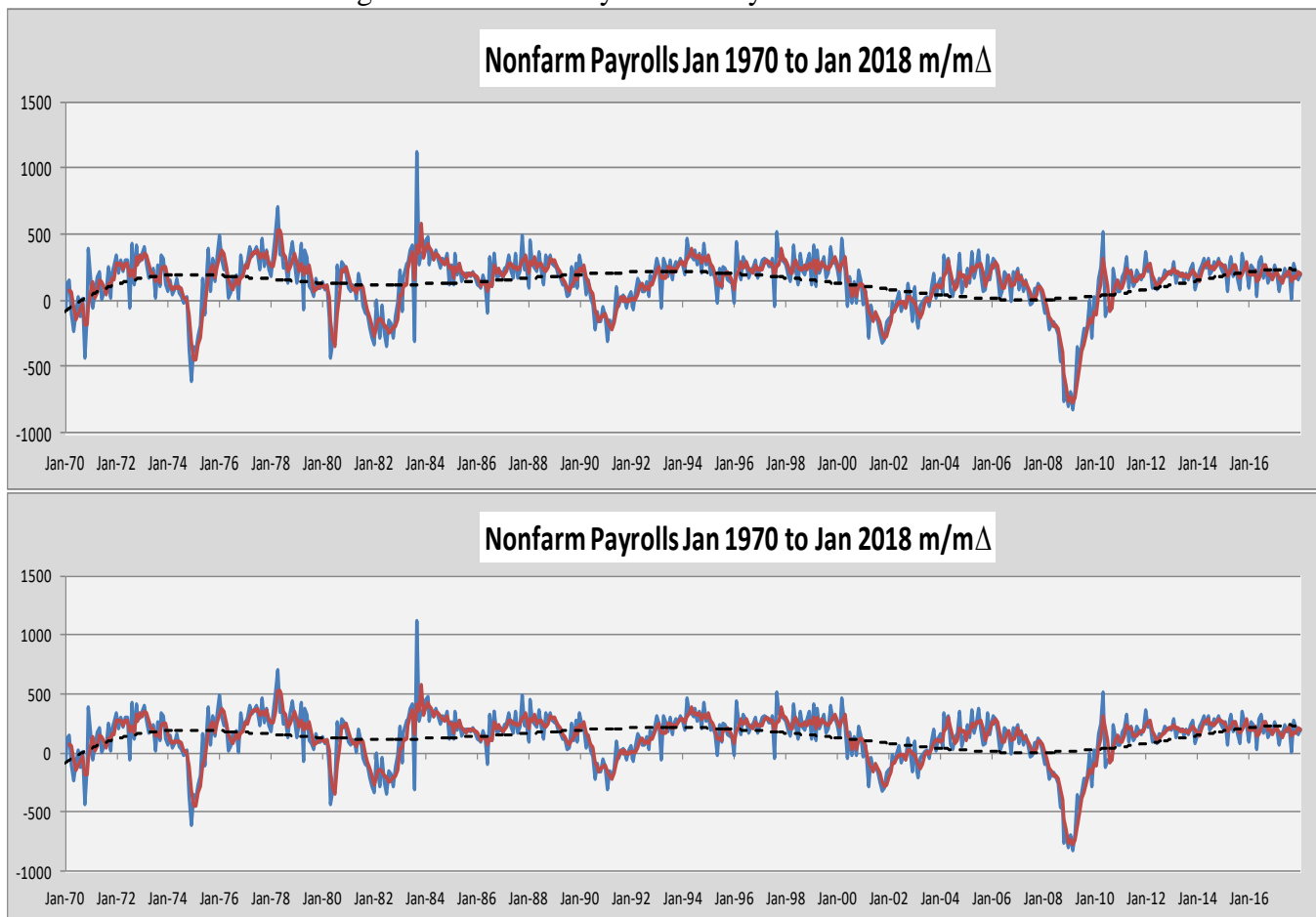
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February 2, 2018

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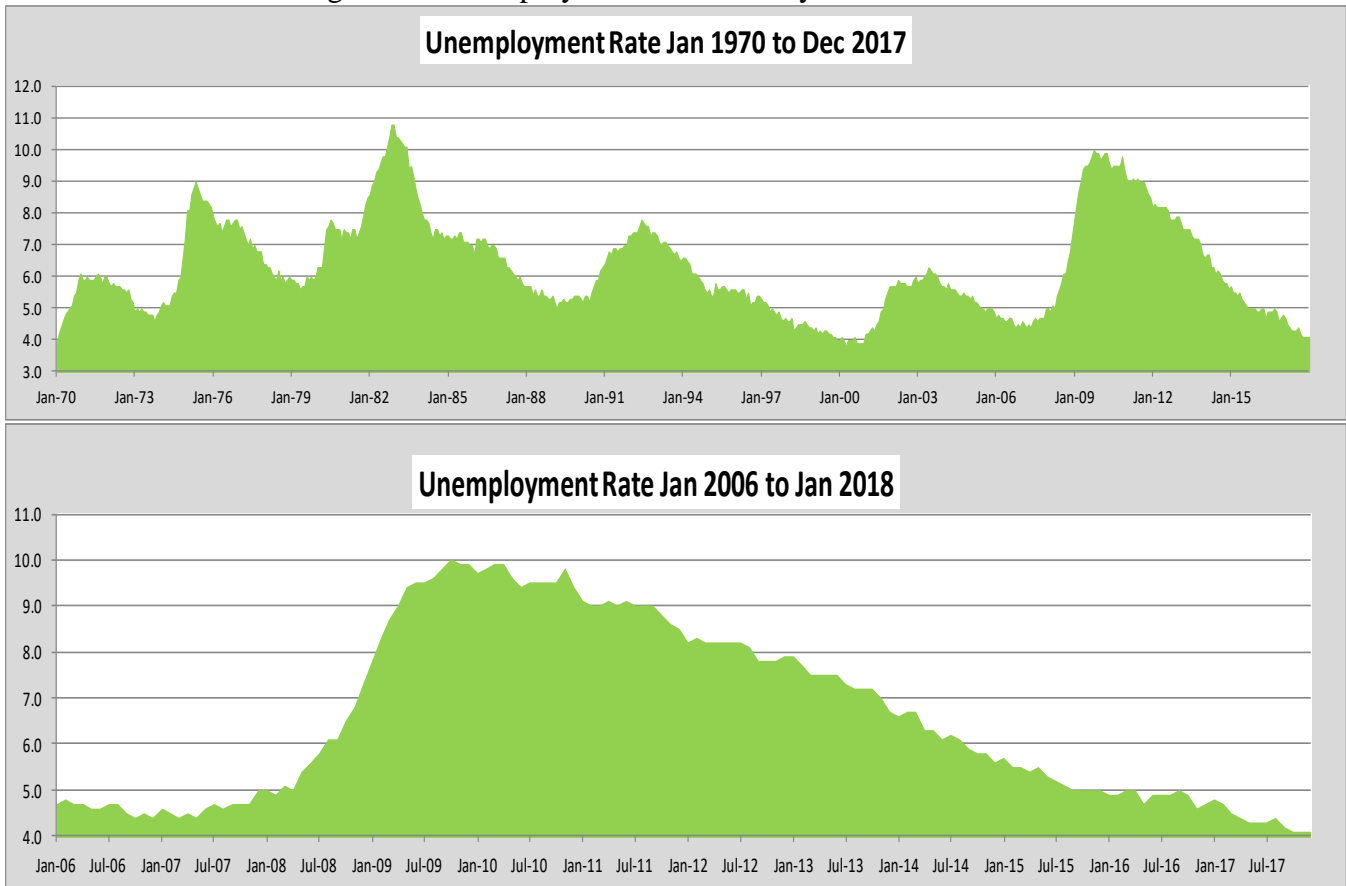
January Nonfarm Payroll jobs were up 200K - the Unemployment rate steady at 4.1% - Report still shows some slack but near record low levels in the labor pool wages up 0.34% m/m and 2.89% y/y

Figure I: Nonfarm Payroll January 1970 to Jan 2018



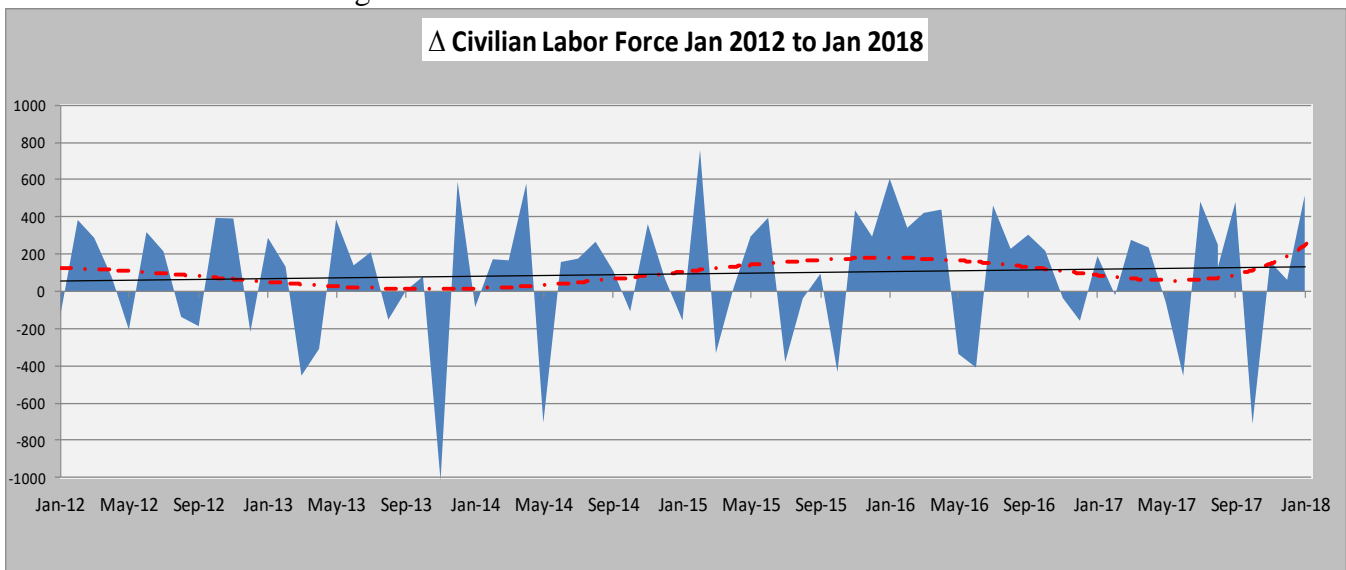
Source: BLS, Factset, SISR

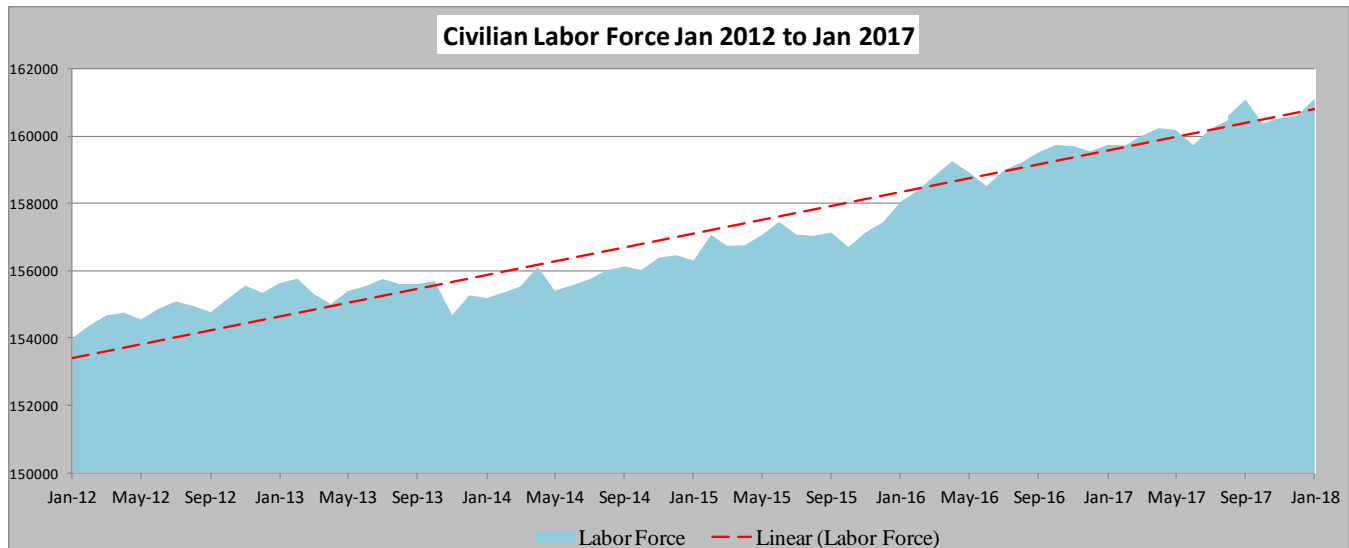
Figure III: Unemployment Rate January 1970 to Jan 2018



Source: BLS, Factset, SISR

Figure III: Civilian Labor Force Jan 2012 to Jan 2017





Source: BLS, Factset, SISR

Introduction:

This morning the BLS reported that there were 200K new nonfarm payroll workers. Today's number was above consensus of 175K; it was significantly below the ADP number of 233. The report was solid on almost all levels, while still showing that there is still slack in the labor pool. This month there were 518K new entrants into the labor pool. This was not matched by the marginally attached workers which decreased only modestly, but the decline in the marginal worker pool does match with the 200K new jobs.

Discouraged workers went down 23K and now stand at 451K whereas the lows in the 1999 averaged 280K (Figure IVA). The long term unemployed were down 94K to 1421 only about 350K above the lows from 2006 (Figure IVB). The part time workers who want full time employment actually increased by 74K (Figure IVC), meaning that some of the 200K new workers went to involuntary part time work filling some of the new hires. Also the U-6 unemployment rate was up from 8.1% to 8.2%, and was as low as 8.0% in Oct and Nov (Figure IVD).

Based on all the marginally attached workers data we find that these numbers are now close to the late 1990's numbers which was the last tight labor market. If there was no slack in the work force a good month would add about 80K new payroll workers. The only way to get a number like today's 200K, from last month January is for there to be about 120K new employees from the marginally attached work force, which we got this month. IF we add the 23K from the discouraged worker pool and the 94K from the long term unemployed plus the normal new worker increase of 70 to 80K we basically get the top line number of 200K. This is why we always look at Figure IV to see where the potential slack is coming from. This pool as shown above now is near record lows, meaning that structural unemployment has almost been eliminated.

Figure IV: Discouraged, long Term unemployed, Part Time Workers and U-6, Jan 1994 to Jan 2018

Discouraged Workers Jan 1994 to Jan 2018												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1994	600	489	533	502	436	532	542	489	521	460	447	445
1995	440	439	454	385	398	364	456	410	341	412	401	425
1996	409	455	451	403	352	414	423	415	391	374	346	334
1997	397	364	356	379	338	353	311	311	328	302	331	345
1998	374	361	343	344	268	311	374	280	317	333	310	358
1999	339	271	295	245	256	220	290	265	289	271	272	267
2000	236	267	258	331	280	309	266	203	253	232	236	269
2001	301	287	349	349	328	294	310	337	285	331	328	348
2002	328	375	330	320	414	342	405	378	392	359	385	403
2003	449	450	474	437	482	478	470	503	388	462	457	433
2004	432	484	514	492	476	478	504	534	412	429	392	442
2005	515	485	480	393	392	476	499	384	362	392	404	451
2006	396	386	451	381	323	481	428	448	325	331	349	274
2007	442	375	381	399	368	401	367	392	276	320	349	363
2008	467	396	401	412	400	420	461	381	467	484	608	642
2009	734	731	685	740	792	793	796	758	706	808	861	929
2010	1065	1204	994	1197	1083	1207	1185	1110	1209	1219	1282	1318
2011	993	1020	921	989	822	982	1119	977	1037	967	1096	945
2012	1059	1006	865	968	830	821	852	844	802	813	979	1068
2013	804	885	803	835	780	1027	988	866	852	815	762	917
2014	837	755	698	783	697	676	741	775	698	770	698	740
2015	682	732	738	756	563	653	668	624	635	665	594	663
2016	623	599	585	568	538	502	591	576	553	487	591	426
2017	532	585	460	455	355	514	536	448	421	524	469	474
2018	451											

Long Term Unemployment Jan 2005 to Jan 2018												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	1648	1628	1660	1609	1538	1375	1380	1407	1439	1422	1370	1356
2006	1170	1350	1309	1331	1333	1145	1304	1306	1245	1078	1131	1093
2007	1141	1249	1245	1206	1132	1143	1291	1246	1264	1298	1374	1324
2008	1388	1329	1323	1372	1561	1576	1664	1866	2027	2280	2219	2610
2009	2699	2999	3260	3752	3973	4349	4917	5037	5494	5643	5908	6122
2010	6319	6129	6545	6800	6638	6623	6506	6259	6163	6227	6326	6429
2011	6202	5919	6110	5931	6151	6233	6166	6033	6280	5856	5692	5599
2012	5503	5298	5247	5130	5389	5358	5188	5033	4889	5019	4781	4771
2013	4683	4695	4531	4381	4349	4352	4269	4297	4138	4046	4059	3877
2014	3628	3804	3682	3413	3351	3076	3166	2966	2951	2904	2822	2785
2015	2800	2709	2563	2525	2502	2121	2180	2187	2104	2132	2054	2085
2016	2089	2165	2213	2063	1885	1979	2020	2006	1974	1979	1856	1831
2017	1850	1801	1687	1626	1663	1664	1785	1740	1733	1645	1593	1515
2018	1421											

Part Time workers working Part Time for Economic Reasons who want Full Time work Jan 1998 to Jan 2018												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	3922	3866	3859	3775	3727	3766	3796	3537	3448	3433	3339	3420
1999	3449	3425	3550	3443	3393	3411	3350	3286	3279	3153	3225	3283
2000	3208	3167	3231	3186	3283	3209	3144	3211	3217	3179	3467	3243
2001	3332	3296	3280	3289	3439	3792	3556	3380	4233	4437	4317	4393
2002	4112	4289	4101	4199	4103	4048	4145	4301	4329	4314	4329	4321
2003	4607	4844	4652	4798	4570	4592	4648	4419	4882	4813	4862	4750
2004	4705	4549	4742	4568	4588	4443	4449	4474	4487	4820	4547	4427
2005	4389	4250	4388	4278	4315	4432	4400	4491	4675	4269	4219	4115
2006	4123	4174	3972	3900	4111	4318	4303	4195	4115	4352	4190	4187
2007	4279	4220	4253	4313	4473	4342	4410	4576	4521	4325	4494	4618
2008	4846	4902	4904	5220	5286	5540	5930	5851	6148	6690	7311	8029
2009	8046	8796	9145	8908	9113	9024	8891	9029	8847	8979	9114	9098
2010	8530	8936	9233	9178	8845	8577	8500	8800	9246	8837	8873	8935
2011	8470	8464	8645	8652	8576	8427	8281	8788	9166	8657	8447	8171
2012	8267	8214	7793	7907	8123	8081	8092	7998	8667	8229	8150	7922
2013	8030	8089	7682	7924	7901	8104	8093	7837	8008	8028	7708	7763
2014	7250	7230	7428	7452	7219	7473	7440	7213	7124	7065	6844	6786
2015	6784	6630	6673	6549	6600	6465	6300	6481	6034	5761	6085	6022
2016	5988	5988	6123	5962	6430	5843	5940	6027	5874	5850	5659	5598
2017	5840	5704	5553	5272	5219	5326	5282	5255	5122	4753	4801	4915
2018	4989											

U-6 unemployment including marginally attached to the Labor force Jan 1994 to Dec 2017												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1994	11.8	11.4	11.4	11.2	10.8	10.9	10.7	10.5	10.4	10.3	10.1	10.0
1995	10.2	9.9	9.9	10.0	10.0	10.1	10.1	10.0	10.1	9.9	10.0	10.0
1996	9.8	10.0	9.8	9.9	9.7	9.6	9.7	9.3	9.4	9.4	9.3	9.5
1997	9.4	9.4	9.1	9.2	8.8	8.8	8.6	8.6	8.7	8.4	8.3	8.4
1998	8.4	8.4	8.4	7.9	7.9	8.0	8.1	7.9	7.9	7.8	7.6	7.6
1999	7.7	7.7	7.6	7.6	7.4	7.5	7.5	7.3	7.4	7.2	7.1	7.1
2000	7.1	7.2	7.1	6.9	7.1	7.0	7.0	7.1	7.0	6.8	7.1	6.9
2001	7.3	7.4	7.3	7.4	7.5	7.9	7.8	8.1	8.7	9.3	9.4	9.6
2002	9.5	9.5	9.4	9.7	9.5	9.5	9.6	9.6	9.6	9.6	9.7	9.8
2003	10.0	10.2	10.0	10.2	10.1	10.3	10.3	10.1	10.4	10.2	10.0	9.8
2004	9.9	9.7	10.0	9.6	9.6	9.5	9.5	9.4	9.4	9.7	9.4	9.2
2005	9.3	9.3	9.1	8.9	8.9	9.0	8.8	8.9	9.0	8.7	8.7	8.6
2006	8.4	8.4	8.2	8.1	8.2	8.4	8.5	8.4	8.0	8.2	8.1	7.9
2007	8.4	8.2	8.0	8.2	8.2	8.3	8.4	8.4	8.4	8.4	8.4	8.8
2008	9.2	9.0	9.1	9.2	9.7	10.1	10.5	10.8	11.0	11.8	12.6	13.6
2009	14.2	15.2	15.8	15.9	16.5	16.5	16.4	16.7	16.7	17.1	17.1	17.1
2010	16.7	17.0	17.1	17.1	16.6	16.4	16.4	16.5	16.8	16.6	16.9	16.6
2011	16.2	16.0	15.9	16.1	15.8	16.1	15.9	16.1	16.4	15.8	15.5	15.2
2012	15.2	15.0	14.6	14.6	14.8	14.8	14.8	14.6	14.8	14.4	14.4	14.4
2013	14.5	14.3	13.8	14.0	13.8	14.2	13.8	13.6	13.7	13.7	13.1	13.1
2014	12.7	12.6	12.6	12.3	12.1	12.0	12.2	12.0	11.8	11.5	11.4	11.2
2015	11.3	11.0	10.9	10.8	10.7	10.5	10.4	10.3	10.0	9.8	9.9	9.9
2016	9.9	9.7	9.8	9.7	9.7	9.7	9.7	9.7	9.7	9.5	9.3	9.2
2017	9.4	9.2	8.9	8.6	8.4	8.6	8.6	8.6	8.3	8	8.0	8.1
2017	8.2											

Source: BLS, SISR

Looking closer at Figure IV it shows that the discouraged worker pool is about 200K above the lows from 1999, the long term unemployed is about 350K above the 1999 lows, and the U-6 is about 1% above the 1999 lows. This implies that perhaps the slack in the work force is about 500K, which means

that if next year the average monthly payroll number is 140K the total structural unemployed slack should be eliminated and that a high 3% unemployment level should be attainable.

The most important aspect of this report from the market perspective was the change in hourly wages. Hourly wages were up 0.34% m/m and 2.89% y/y. Looking closer at Figure V shows some interesting trends and reasons for these increases.

Figure V: Hourly wage gains m/m and y/y by sector Jan 2018

Hourly Earnings M/M and Y/Y Change Jan 2018						
Industry	Jan -18	Dec-17	Jan-17	m/m change	m/m annualized	y/y change
Total	\$26.74	\$26.65	\$25.99	0.34%	4.1%	2.89%
Goods Producing	\$27.89	\$27.86	\$27.27	0.1%	1.3%	2.27%
Mining	\$32.35	\$32.24	\$32.24	0.3%	4.1%	0.34%
Construction	\$29.33	\$29.30	\$27.51	0.1%	1.2%	6.62%
Manufacturing	\$26.83	\$26.80	\$26.33	0.1%	1.3%	1.90%
Service-all	\$26.47	\$26.37	\$25.70	0.4%	4.6%	3.00%
Wholesale	\$30.21	\$30.30	\$29.94	-0.3%	-3.6%	0.90%
Retail	\$18.41	\$18.34	\$18.10	0.4%	4.6%	1.71%
Transportation	\$24.29	\$24.24	\$23.54	0.2%	2.5%	3.19%
Utilities	\$39.73	\$39.55	\$38.99	0.5%	5.5%	1.90%
Information	\$38.94	\$37.73	\$37.56	3.2%	38.5%	3.67%
Financial	\$33.99	\$33.94	\$32.62	0.1%	1.8%	4.20%
Professional & Bus Services	\$32.18	\$32.00	\$31.23	0.6%	6.7%	3.04%
Education & Health	\$26.78	\$26.67	\$25.99	0.4%	4.9%	3.04%
Leisure & Hospitality	\$15.73	\$15.70	\$15.23	0.2%	2.3%	3.28%
Other Services	\$24.24	\$24.22	\$23.52	0.1%	1.0%	3.06%
Average (not-weighted)	\$28.49	\$28.35	\$27.72	0.4%	5.11%	2.81%

Source: DOL, SISR

Viewing the hourly earnings table (Figure V) we find that much of it is driven by construction up 6.6% y/y and the strength in the finance sector up 4.2% y/y. On m/m basis inflation came from the service sector which was up 4.0% with the goods producing sector up only 0.1% m/m. It was the service sector where in CPI and now in this wage report we are finding some inflation.

The Payroll numbers

- Total nonfarm up 200K
 - Total private up 196K
 - Goods producing up 57K
 - Mining unchanged 6K
 - Construction up 36K
 - Manufacturing up 15K
 - Durable goods up 18K
 - nondurable goods down (-3K)
 - Private service providing up 139K
 - Wholesale trade up 9.8K
 - Retail trade up 15.4K
 - Transportation and warehousing up 11.1K

- Information down (-6.0K)
- Financial Services up 9K
- Professional and business services up 23K
- Education and health services up 38K
 - Health up 25.8K
 - Educational services up 11.7K
- Leisure and Hospitality up 35K
- Government up 4K
 - Federal up 5.0K
 - State down (-11K)
 - Local government up 10K
 - Local government education down (-0.3K)
 - Local non education up 9.8K

Summary & Implications

This morning's nonfarm payroll report came in above expectations at 200K with hourly wages up 0.34% m/m and up 2.89% y/y. Looking at the data we find that the 200K increase is compatible with the decline in the marginally attached worker pool of potential workers. Discouraged workers declined by 23K plus the decrease in the long term unemployed of 94K plus the average of 80K new entrants from immigrants and youth finishing their schooling this would be about 207K almost exactly the 200K new jobs number. One important take away from this report is that the structural unemployment slack in the economy is finally going away, and the slack is close to the full employment levels from the late 1990's. We estimated that there are about 400 to 500K potential employed workers in the marginal unemployed pool, meaning that unemployment may soon be in the high 3% and at historic low levels of full employment.

To the extent that the slack in the economy is almost gone, the Fed and almost everyone expects some wage inflation which we saw today up .034% m/m and now 2.89% y/y. Looking at the hourly earnings table (Figure V) we find that much of it is driven y/y by construction up 6.6% and the strength in the finance sector up 4.2% y/y. On an m/m basis the wage increase came from the service sector which was up 4.0% while the goods producing sector up only 0.1% m/m. It was the service sector where in CPI and now in this wage report we are finding some inflation. This service sector inflation has investment implications.

Finally the strong sell off from today and all we is showing how our macro model was correct in pointing out that the markets have been excessively over bought.

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1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.

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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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