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The Aerial View

Fixed Income & Markets Update

Non-Farm Payroll ends 2017 on Weaker Footing, Fed still in Play for March

- **US adds 148,000 jobs against an expected 190,000 new hires**
- **Disappointment offset somewhat by upward revision of November rolls**
- **Unemployment holds at 4.1% but underemployment ticks up to 8.1%**

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The employment picture became a bit more clouded in the final reading for 2017, with non-farm payrolls increasing just +148,000 versus a +190,000 expectation and a +252,000 prior month (revised) reading. The +24,000 revision to the November report provided a modest offset to the weak print, although the two-month adjustments reduced late 2017 hiring by 9,000.

Other components of the non-farm report were less jarring, with the unemployment rate (U3) steady at 4.1%, an uptick in the underemployment rate (U6) to 8.1% (+ 10 bps), while the participation rate held steady at 62.7%. The wage picture was also mostly steady, with +0.3% m/m gains, which equated to a steady 2.5% y/y increases in average hourly earnings. Given that the Fed effectively believes we are at full employment, the lack of a more substantive gain in wages will become the primary conundrum for the new Powell Fed.

Our main takeaway is that while the report is a disappointment in the sizeable headline miss, it is mostly consistent with the late stages of our current expansion. In retrospect, we have had eight years of steadily employment gains, representing one of the longest expansionary periods that has pushed unemployment to near its lowest levels in 50 years.

with this year, as its earmarked three hikes will require acceleration from current levels. Having said that, we do not see anything in the current report that will dissuade the consensus view that a hike is forthcoming in March, with odds still pointing to an 80%+ chance that it will occur. While the doves will be emboldened to wait until inflation rears its head, they are noticeably absent from the voting rolls this year.

We will point out that gains from the manufacturing sector provide some hope that productivity gains will support another year of above trend economic performance. Following two quarters of 3+% GDP, expectations have firmed that we can post another 3% gain in the 4Q:17 period. This optimism is supported by GDPNOW and NOWCAST which stands at 3.2% and 3.9% at the moment.

One data point does not make a trend, although this employment report will lower that enthusiasm slightly. The wildcard is the economic impact of the tax bill, which has caused most growth estimates to increase at least a little in 2018 and 2019.

The markets are mostly unchanged following the report, with yields marginally lower in the belly and slightly higher at the long end. We have noted that this week's strong data (ISM, ADP) had little impact on shaking the range, and today's report is consistent with that response. Stock are unchanged this AM after starting the year off with gains of between 1.5%-2.5% in the US. Dollar weakness is also evolving as an important theme, and today's report ultimately supports concerns that have driven the USD lower.

NFP ends 2017 with Headline Miss, Other Indicators Stable

Rates	Pre Announce	Current (@9:15 AM)	Change vs Pre-release
2 Year Treasury	1.960	1.954	-0.6
5 Year Treasury	2.277	2.263	-1.3
7 Year Treasury	2.392	2.380	-1.2
10 Year Treasury	2.462	2.453	-0.9
30 Year Treasury	2.796	2.792	-0.4

Curves	Pre Announce	Current (@9:15 AM)	Change
2s/10s Curve	50	50	0
2s/30s Curve	83	84	0
5s/10s Curve	18	19	0
5s/30s Curve	52	53	1
10s/30s Curve	33	34	1

Equities	Pre Announce	Current (@9:15 AM)	Change
Dow Mini	25,142	25,125	-17.0
S&P Mini	2,732	2,731	-0.5
NASDAQ Mini	6,629	6,624	-4.8

Commodities	Pre Announce	Current (@9:15 AM)	Change
WTI	$ 61.34	$ 61.41	$ 0.07
Brent	$ 67.33	$ 67.55	$ 0.22
Gold	$1,318.43	$ 1,315.98	$ (2.5)

Currency	Pre Announce	Current (@9:15 AM)	Change
Dollar Index	92.063	92.019	-0.04
Eur/USD	1.205	1.203	0.00
GBP/USD	1.355	1.355	0.00
USD/JPY	113.280	113.200	-0.08

Source: Bloomberg

Please direct questions or comments to:

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