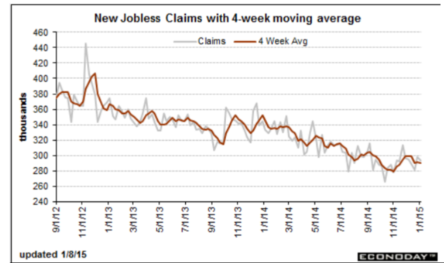
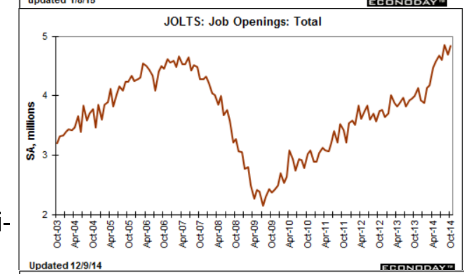
C.F. WHITTELSEY HOLDINGS

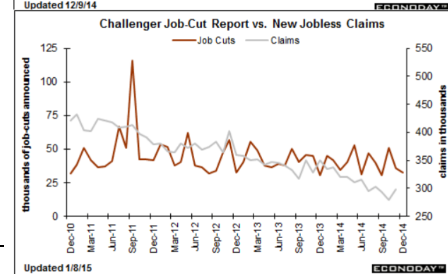
# Weekly Market Review

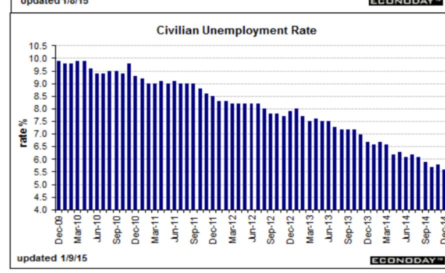
## January 05 2015 — January 09, 2015

"You've hired a lot of people in the last three or four months, and to the extent that you're bringing in a lot of new talent, this new talent is not getting paid as the more experienced talent... its probably only temporary. I would suspect that at the beginning of this year, as we go forward, those wages will pick up" - John Silvia—Chief Economist at Wells Fargo Securities.




## An Improving Labor Economy (ex one data point)

The Employment Situation Report (one of the most widely viewed metrics for labor statistics) was released on Friday with results that are not all that surprising.

| | Prior | Prior Revised | Consensus | Consensus Range | Actual |
|---|---|---|---|---|---|
| Nonfarm Payrolls - M/M change | 321,000 | 353,000 | 245,000 | 202,000 to 305,000 | **252,000** |
| Unemployment Rate - Level | 5.8 % | | 5.7 % | 5.6 % to 5.8 % | **5.6 %** |
| Private Payrolls - M/M change | 314,000 | 345,000 | 238,000 | 190,000 to 295,000 | **240,000** |
| Participation Rate - level | 62.8 % | 62.9 % | | | **62.7 %** |
| Average Hourly Earnings - M/M change | 0.4 % | 0.2 % | 0.2 % | 0.0 % to 0.3 % | **-0.2 %** |
| Av Workweek - All Employees | 34.6 hrs | | 34.6 hrs | 34.5 hrs to 34.6 hrs | **34.6 hrs** |

The unemployment rate continues to decline (now at 5.6%) which isn't too far from the Feds general consensus of a NAIRU around 5.2%-5.4%. However, wages continue to be flat, participation continues to be low, and nonfarm/private payrolls are right in the middle of expectation. The trend clearly is for lower claims and lower unemployment, but does that translate into a functioning labor economy?

Well, the number of people working part time is lower and the number of long term unemployed is lower, as a matter of definition, some of this is due to the statistics not counting discouraged workers who have left the workforce. The .2% drop in hourly earnings was the biggest since 2006 and wage inflation plays an important role in overall inflation. I would suggest that the low wage growth isn't anything to worry about in the immediate term (both in terms of rate expectations and economic prosperity) as it will not impact the beginnings of a move toward a neutral rate policy. The current plans to bump rates are more about normalizing policy and markets while simultaneously trying to reduce current and future distortions created (or exasperated) by the untraditional playbook the Fed has been wielding, as compared to trying to stave off inflation (gas way down, wages flat—no inflation to be seen).

## Challenger Job Report

Two surveys that are less viewed, but very informative, are the JOLTS Job Openings Survey and the Challenger Jobs Report. What we gain from these reports is that 2014 was a year of the fewest planned job cuts since 1997 which suggests that layoffs are at pre recession levels and speaks to very high levels of job security which should encourage spending. The low cuts for December is particularly important as lower oil prices can lead to layoffs in sectors such as Steel (US Steel to layoff 770 employees in January), the resilience in the report suggests that the negative impacts of lower oil are low and the positives, such as more discretionary spending due to lower transport costs, are high.

The BLS JOLTS survey shows a huge market for jobs as employers are increasing hiring. We get the next report two weeks which I suspect to verify the current trend. There were 4.83 million job openings on the last day of October and 5.1 million hires as well. Separations (which includes people quitting or other voluntary reasons for the employee to leave) were 4.8 million and are up YoY. This suggests that people are more willing to move to a new job which tends to increase wages and advance careers. A more mobile work force (empowered by job openings, low levels of layoffs, and individuals willingness to quit) effectively leads to higher wages and better prospects for the employee and employer.

**Table 3. Total separations levels and rates by industry and region, seasonally adjusted[1]**

| Industry and region | Levels (in thousands)[2] | | | | | | Rates[3] | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oct. 2013 | June 2014 | July 2014 | Aug. 2014 | Sept. 2014 | Oct. 2014[p] | Oct. 2013 | June 2014 | July 2014 | Aug. 2014 | Sept. 2014 | Oct. 2014[p] |
| Total....................................... | 4,305 | 4,520 | 4,629 | 4,531 | 4,809 | 4,824 | 3.1 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 |

## All in All

All in all, the labor economy is in fine shape and wages will likely follow. While people have been saying that for some time with nothing to show for it, there is little economic reason to assume that as quantity of demand for employment rises, and supply declines, prices (in this case wages) don't go up—especially if the cyclical component of unemployment is rapidly shrinking (which I believe it to be). In the mean time, low energy costs are giving consumers some relief.