Week In Review

March 9, 2018

Employment

February nonfarm payrolls increased by 313,000 jobs, while the unemployment rate remained at 4.1%. Average hourly earnings rose just 0.1% for the month and have risen 2.6% over the past year. The labor force participation rate rose to 63.0% from 62.7%.

Our Take: The growth in jobs was significantly more than expected, but was offset by lower-than-expected wage increases. The labor market appears to be tightening as evidenced by jobs gains increased participation but, unless earnings growth picks up, the Fed is not likely to change their gradual tightening course.

Europe

After months of negotiations, Germany's Social Democratic Party (SPD) agreed to be the junior partner in another coalition government with Merkel's party. The SPD has secured several important cabinet posts and several commitments from the CDU in exchange for joining the new government. The new government will be committed to open immigration and sustaining the EU. In Italy, both the center-left and center-right parties lost large numbers of seats and will only be able to be a junior partner in a coalition led by either Five Star or the League.

Our Take: Much like France did last spring, Germany handed power to centrists who are committed to current EU institutions and policies, although a coalition of the centrist parties is needed following strong showings by populist and more extreme parties. In Italy, the populist parties trounced the more centrist, establishment parties, and any government formed will be very likely to come into conflict with Germany and France over fiscal policies, labor market reforms, and immigration.

Tariffs

President Trump signed an executive order implementing 25% tariffs on steel and 10% tariffs on aluminum. The executive order exempted imports from Canada and Mexico and allowed other exporters of these metals to apply for exemptions if they could show that their national security would be threatened by the tariffs, or that their exports do not endanger U.S. national security. Gary Cohn, the head of Trump's Council of Economic Advisers and a staunch opponent of trade restrictions, resigned following the announcement that the administration would proceed with the tariffs.

Our Take: The exemption of Canada and Mexico and the ability of other key trading partners and allies to seek exemptions is an improvement over the initial announcement of blanket tariffs. However, trade restrictions are a net negative for any nations that implement them, and investors are rightfully nervous that the U.S. is moving away from a free trade consensus that has guided policymaking for decades.

Municipals

S&P warned that Guam could be downgraded due to lower-than-expected tax collections. According to Bloomberg, Guam's 2018 general fund revenue is expected to decline by $67 million. S&P currently assigns Guam a BB- junk rating on the territory's general obligation debt.

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Our Take: Changes to the tax code are causing lower-than-expected tax collections in Guam. Lawmakers are working to find additional revenue, including increasing the island's sales tax, but have been unable to agree on a plan. Guam's governor and other government leaders have offered to take voluntary pay cuts. Lawmakers must work on a compromise to address the budget shortfall. Guam cannot afford another downgrade.

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