Week In Review

January 4, 2019

Employment

December nonfarm payrolls increased by 312,000 and were revised higher in October (+37k) and November (+21k). This far exceeded consensus estimates of an increase of 184,000 jobs. The unemployment rate rose from 3.7% to 3.9%, as formerly discouraged workers reentered the job market. Labor force participation rose to 63.1% from 62.9%. Average hourly earnings were up 0.4% in December and 3.2% in 2018.

Our Take: The employment report was surprisingly good, as both jobs created and wages earned increased more than expected in December. While this report would have increased chances of a Fed rate hike in 2018, expect more caution in 2019. The Fed is aware of headwinds to growth and is likely to proceed more slowly this year than last.

Powell Speaks

Fed Chair Jerome Powell spoke Friday at the American Economic Association's annual meeting. Among his remarks, Chairman Powell said that "there is no preset path" for raising rates or adjusting the balance sheet. Further, Powell stated that with the "muted inflation readings" recently observed, the Fed can be "patient" in its approach to monetary policy. Though Powell said the U.S. economy looks strong, he believes the market is pricing in downside risks that are "well ahead of the data," while noting the Fed is "listening very carefully" to the market.

Our Take: Chairman Powell's remarks do not differ dramatically from the statements made after the Fed's December 20 meeting. The Fed remains data dependent and will adjust its gradual path of rate increases as needed. This is clearly what the market wanted to hear.

ISM Manufacturing Index

The December ISM manufacturing index fell from 59.3 to 54.1. The new order component of the index fell from 62.1 to 51.1.

Our Take: Readings over 50 in the ISM indexes indicate that the manufacturing sector is still expanding, though at a much slower pace. This slowdown may weaken the resolve of Fed hawks and will certainly warrant consideration in future Fed rate deliberations.

Municipals

State and local governments issued $321 billion of municipal bonds in 2018, which lagged the 2017 issuance of almost $411 billion. According to Bloomberg, Bank of America Merrill Lynch was the largest underwriter with 16% of the market, followed by Citi with 12% and JP Morgan with 10% of the market.

Our Take: As expected, 2018 municipal issuance was lower than the 2017 level. State and local governments rushed to issue bonds at the end of 2017 before tax changes occurred. 2018 issuance lagged the 2017 levels throughout the year. In addition, the Securities Industry and Financial Markets Association (SIFMA) Municipal Issuance Survey released last month predicted that 2019 municipal issuance will be slightly lower than 2018 levels.

—There is no additional Week In Review detail for this page.—

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