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Financial Market Weekly

11 September 2017

Economic Commentary

Nonfarm payrolls rose by 156k in August, which was below market expectations of 180k and less than the monthly average for 2017 (~178k). While the headline was somewhat disappointing, for context, the labor market through August of this year has produced more than 1.4 million jobs. In 2016, 1.5 million jobs were produced through August. For the month, payrolls were lead higher by gains in professional & business services (+40k), manufacturing (+36k), construction (+28k) and leisure & hospitality (+16k). Employment in the manufacturing industry has been noticeably strong over the past three months, adding an average of nearly 28k each month compared to only 10k through the first five months of the year.

Perhaps more disappointing than the headline figure was the growth in average hourly earnings. On a year over year basis, average hourly earnings were up only 2.5 percent. Toward the end of 2016 and through the first few months of 2017, wage growth appeared to have been breaking out of its range this cycle. However, beginning in March wage pressures began to decelerate and have been stagnant growing at only a 2.5 percent pace since April. Considering the deceleration in job growth and the availability of labor resources, wage growth should be higher.

Rates Commentary

Treasury yields are bouncing off the lows from Thursday, seemingly holding the lower end of the range that it's been trading in over recent quarters. As of this morning, the U.S. 10-Year Treasury yield is trading near 2.11 percent compared to 2.05 percent on Thursday of last week. On the shorter end, the 2-year is hovering around the 1.30 percent level compared to 1.27 percent on Thursday. As a result, the spread between the 10- and 2-year Treasury yields are moving off their lows of 77 basis points put in last week. Based on the levels this morning, the spread has increased 7 bps to 84 basis points.

Outlook

In light of the recent hurricanes striking Texas, Florida and Alabama later this week, it's probable the ensuing data on the labor market in September may be adversely impacted. The methodology that the Bureau of Labor Statistics utilizes to collect information on job creation and the unemployment level is through survey. Depending on the extent of damage in the affected areas, survey data may not be reliable. For context, Texas and Florida contributed more than a quarter (~28%) of the job growth in July.

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Interest Rate Swap

Rate Market (vs. 2 weeks ago)
2y Swap: 1.52% (-5 bps)
5y Swap: 1.74% (-8 bps)
7y Swap: 1.87% (-9 bps)
10y Swap: 2.03% (-9 bps)
30y Swap: 2.34% (-7 bps)

Source: Bloomberg, FRED