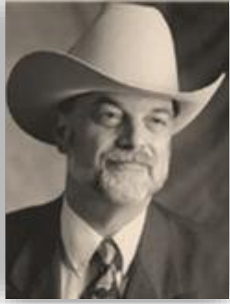

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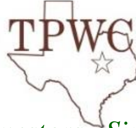

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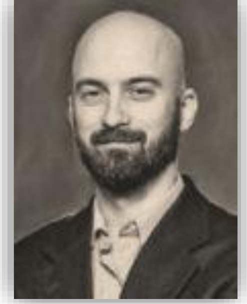

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index ("SPX") closed today at 2,355.54, down 0.30% from last week. Gold rose 0.50% to close at $1.250, and the ten-year U.S. Treasury note was yielding 2.382% only a shade lower than last week. In short, by looking at the market numbers, not much happened.

That was the big news; the market did not react. For the first time, the United States took unilateral action against the Assad regime and hit an air base in Syria with 59 cruise missiles, each carrying about 500 pounds of high-explosive munitions. Meanwhile back here in America, the Senate took historic action and scrapped the filibuster rule for supreme court nominees as a new member of the Supreme Court of the United States was confirmed. As we discuss in more detail below, the Labor Department released the employment report for March, and it came in over 75,000 jobs below estimates. And, as a side note, talks broke down between Greece and its creditors on how to avoid a looming default. During all of that normally market-shaking news, if you watched the markets, you would conclude that not much happened.

We have been carefully observing the markets for a long time and well remember that an American air strike in a country like Syria in the past would send the stock market into a plunge. For the United States to bomb an airfield which Russia routinely uses for operations in Syria would have produced a panic. Of course, in this case, Russia was given plenty of warning that the bombs were coming. They, and the Syrians, apparently had plenty of time to evacuate their people and aircraft, but the big news is still that the market did not flinch.

The "Why?" to that non-flinch appears to be complex. First, the market, and to a large degree the rest of us, seem to have become numb to news-jolts. Second, the market appears to have discounted political events as relatively unimportant. The driver in the stock, bond, and commodities markets appears to have shifted to pure economic reality. All the anecdotal signs are that the economy is driving along steadily if not spectacularly, and a good earnings season is at hand.

To maintain a bit of continuity, here are the numbers to put today's markets in perspective. Today's SPX close was at a level 248% higher than it was eight years ago in 2009. From its low point on February 11 of last year, the Index is up 28.78%, and from its high point in May of 2015, just over two years ago it is up 10.55%.

The Economy

<u>March Employment Report</u>

The economic headline this week is that U.S. employers created and filled about 98,000 new jobs in March. The consensus of forecasts suggested that the number would be more like 175,000. At the same time, the unemployment rate dropped to 4.5% from last month's 4.7%. For some at least, the under-employed plus unemployed percentage rate ("U-6") has been important for the past several years. The U-6 dropped to 8.9%, the lowest it has been since before the financial crisis of 2008-2009. That report also announced that the average hourly wage earner is now earning 2.7% more than he or she did a year ago. As the Personal Consumption Expenditure Index ("PCE") is up almost exactly 2% for the same period, that signals a real earnings improvement.

So, if fewer people were hired than we have seen in many months, how did the unemployment rate drop? The answer is to be found in lagging data and weather. The big negatives in the jobs report were in construction and services. We had a bad snowstorm across the Midwest and into New England in March. Construction workers tend to not be hired and at least to some extent, laid off temporarily when blizzards hit. Oddly, the snow resort areas experienced an early spring and unloaded their seasonal employees early this year.

Those temporary and independent contractor jobs that are common in outdoor, seasonal industries and in construction, do not normally qualify employees for unemployment insurance, so we don't see the numbers pop up in the weekly unemployment claims numbers.
The key numbers here are the unemployment and wages figures. 4.5% unemployment is historically extremely low, and wages growing faster than the PCE Index means that there is a shortage of qualified workers.

<u>A Shift in Employment</u>

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We have written about trends we can see today that appear to be firmly rooted in economics. One of those showed up in this report. Either employers are going to have to raise wages substantially, or they are not going to be able to get the "Labor Participation Rate," currently at about 63%, up to the levels we saw in the 1990s or even the lower rates that existed before 2008. There appear to be quite a few people in some form of retirement who might go back to work if it paid enough, net of deductions, to make it worth their time. There also appear to be families that were previously two-earner in which the net income that might be earned if the children's care-giver were to go back to work would not cover child-care and the hassle factor. There is a simple reality here. Deductions and child care expenses have risen faster than wages since the Great Recession.

Still, there are areas in the United States where unemployment is high and there are more than a few people who would want work. Unfortunately, the work they want is very unlikely to come back to where they are and at the pay level they would like.
Reuters published an article today focused on the fast creation of jobs in Mobile, Alabama. The lead photograph is of a new Airbus factory, where that assumedly European product is being assembled and jobs that were once in France and Germany have moved to the United States. Across the traditionally agricultural southern states, industry is moving in and buying up relatively inexpensive agricultural-use land and building factories. The article goes on to note that if President Trump is successful in bringing jobs to the United States, they are far more likely to wind up in lower-wage, right to work states across the south than in the "rust-belt" states that swung to the Republican column in last year's election.

Indeed, it is apparent when one looks at the state employment change numbers published by the Bureau of Labor Statistics that a major migration is underway. It was in the early 20th century that a massive shift in population and jobs happened as the agricultural south lost jobs and people to the industrial north. There was a labor shortage near the major sources of coal and iron ore centered on the Great Lakes. Wages rose there as labor got the upper hand, and any able-bodied worker could get a job. Soon the labor unions formed to exploit that shortage and wages rose more, moving factory laborers into the "middle class."

That shift has reversed. Factories no longer need be on a waterway or near major sources of iron and coal. The traditional high wage and state-mandated union membership environment that dominates the Midwest is missing in the South. Instead, as coal mining and forestry jobs have disappeared, a cadre of workers was put out of work who were proficient at operating heavy equipment and powered tools. Toyota is now a major U.S. employer, and its factories are mainly south of the Mason-Dixon Line. As we wrote above, Airbus has "outsourced" at least one factory's worth of jobs from the stifling, high wage, over-regulated French economy to Alabama. There is another good reason to create new factory jobs in the South, and that can be seen in the March employment report. It is very unlikely that a factory will be shut down for days by a blizzard in Mobile, Alabama.

There is another small irony here that, in our opinion, is worth noting. In the 19th century there was a very similar employment migration as jobs were lost in New England, where factories had been built to use water power, to the South, where there was an abundance of wood to fuel steam engines and plenty of labor available following the Civil War. The shift from the garment and shoe manufacturing in New England to the "sweat-house" factories in the South was devastating to the New England economy. As the agriculture base in the South mechanized and the garment factories first automated and then were ultimately outsourced to Asia, the jobs moved to the Midwest where heavy industry was hiring. The great-grandchildren of many of those migrants are returning south. If the summers keep getting hotter in the southern states, will our descendants move north? Only time will tell. We have already noted that in the summer, anyone who can tends to get out of Texas in search of cooler climes. If, as we suspect, one's location for working will be optional in a future digital, virtual reality workplace, why would employees or employers remain in an unpleasant climate?

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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