Market moves softened NGDP growth expectations

Week Ending Friday June 1, 2018

Market movements last week implied modestly lower NGDP growth in the coming year. Our market-driven forecast, which we use to cut through the noise and detect the meaning of aggregate market moves, fell from 4.0% to 3.9%, Thursday-to-Thursday. This small move lower reflected lower copper and oil prices, a stronger dollar, lower stocks, lower 5-year TIPS spreads and a more gently sloping yield curve. The 5-year yield fell from 2.82% to 2.68%, and the two-year from 2.5% to 2.4%, while shorted dated bonds were little changed.

There were potentially important data releases last week, but they didn’t give us much new information. NGDP revisions were trivial, and the monthly rate of inflation as measured by the PCE less food and energy index was about the same as the month before, at 1.9% annualized. The most interesting release of the week was the jobs report, for the month of May. This showed strong payroll growth, a big shift from part time to full time jobs (but a single month is not a trend) and a nice gain in the Average Hourly Earnings series that comes with the report (3.6% annualized). The unemployment rate sank to 3.8%, while the labor force participation rate fell slightly.

The labor report complimented the Beige Book report of business anecdotes from the various regional Feds. The story from that report was that firms were having to take bigger chances on workers to avoid wage hikes, such as hiring felons and drug users. From a social policy standpoint, this is probably quite a good thing, as these citizens need work too, and, due to the law of diminishing returns, will reap greater utility from joining the labor force, than an already employed worker would from a pay hike. It will be interesting to see if these Beige Book anecdotes translate into upward movement on the labor force participation series.

The coming week will be low on data, with only JOLTS and the Trade Balance being plausibly interesting.