FLORIDA PRIME

Weekly Commentary

AUGUST 5, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The Labor Department announced Friday that nonfarm payrolls rose in July by a much weaker-than-expected 162,000 jobs, well below consensus estimates for a gain of 185,000 jobs. The announcement also revised May and June lower by a combined 26,000 jobs. May's preliminary increase of 175,000 jobs, which was revised higher to a gain of 195,000 jobs last month, was revised back down to a final gain of 176,000, and June's preliminary gain of 195,000 nonfarm jobs was revised modestly lower, to 188,000 jobs. Over the past three months, the economy created an average of 175,000 jobs, which is below April's gain of 199,000 and well below February's much stronger final gain of 332,000 jobs. Looking underneath the numbers, half of the new jobs were in the retail and food and drink sectors, which are not the type of high-paying jobs, with benefits, that are needed to keep the recovery going.

With these new numbers, the unemployment rate dropped to 7.4% in July from 7.6% in June, which represents a new five-year cycle low. The decline was attributable, however, to a decrease in the labor-force participation rate, which ticked down to 63.4% in July. Average hourly earnings fell by 0.1% in July, compared with a sizable 0.4% gain in June, the largest monthly gain in two years. Year-over-year wages rose by 1.9% in July, compared with a 2.1% annual pace in June. The average private workweek for all employees slipped a tick to 34.4 hours in July. That's significant, as a loss of only 0.1 hours worked is the equivalent of subtracting an estimated 300,000 to 400,000 jobs from the economy.

As expected, last week's Federal Open Market Committee (FOMC) statement did not include any indications of when or how the Fed would begin tapering back of its quantitative easing policy under which the Fed is purchasing $85 billion of Treasury and mortgage-backed securities each month. No action was really expected out of this particular meeting, as economic data of late has been too uneven, and the meeting was not scheduled to include a press conference from Fed Chairman Ben Bernanke. But as a follow-up, markets had been expecting more good news on the economy, including a positive jobs report for July, and increasingly focused on September for the Fed to start to the tapering process. This latest jobs report makes that decision a bit more complicated, as it shows the recovery continues to be plagued by the same fits and starts we've seen for months. The Fed clearly would like to see a positive re-acceleration of job creation in August—perhaps along with upward revisions for June and July—to keep its data-dependent plans for a September taper safely on track. Of course, the Fed has reminded markets over and over again that any tapering could be adjusted, and even reversed, if economic conditions warrant, so a September start to tapering is not out of the question—if the data cooperates going forward.

London interbank offered rates (Libor) were unchanged for the week, with three-month steady at 0.27%, six-month steady at 0.40%, and one-year remaining at 0.67%. Short-term Treasuries were virtually unchanged, with one-month steady at 0.02%, three-month up a basis point to 0.04%, six-month steady at 0.07% and one-year steady at 0.11%. Repo markets, as expected, remained under pressure, ending the week at low levels.

G40461-19 (08/13)

Views are as of August 5, 2013, and are subject to change based on market conditions and other factors.