Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

NOVEMBER 6, 2015

Out of Touch

For months we've heard about weakness in manufacturing, the drag from a stronger US dollar and stories about weaker global economic growth. Taken together, the ill-effects were to spread to the broader, "fragile" US economy. In August, eminent economist Larry Summers worried, "As in August 1997, 1998, 2007 and 2008 we could be in the early stage of a very serious situation."

So far that has yet to happen and those repeating the above refrains seem increasingly out of touch.

Data out this week in the US point to the continued resilience—or dare we say, strength!—of the US economy.

The ISM's gauge of service sector activity reached its second highest level of the cycle in November. The services sector is more than 5 times the size of the manufacturing sector. On its own the ISM services reading points to monthly job growth figures approaching 300,000 per month.

Indeed, it should come as no surprise then that job growth rebounded from several weaker reports to +271,000 in October, the best figure recorded in 2015. 241,000 of the 271,000 jobs were generated in the services-providing sector, with manufacturing hiring flat for the month. While the October number was a strong one, we still advise taking a three-month average pace of job growth, which yields a healthy +187,000 reading through October.

The unemployment rate, meanwhile, fell to 5.0% in October—the lowest rate of this cycle. Forget for a second that the unemployment rate is now 5.0% (which is incredible). Think about this: from 1974 to 1997 the unemployment rate was never as low as it is today. We may even push lower in 2016.

Finally, the average hourly earnings measure of wage growth rose to 2.5% year-over-year in October, blasting out its six-year range of 1.8-2.1%. We think wage growth will head toward 3% and higher in 2016.

So while we acknowledge the weakness in manufacturing and export-oriented sectors, we scoff at the notion that the economy is "fragile." Much of the stronger dollar/lower oil impact may be in the rearview mirror. "High unemployment," "sluggish growth," "anemic wage growth" or a "fragile economy" may have characterized the period from 2009-2013 but such descriptors appear increasingly out of sync with the economy in late 2015 and entering 2016. The narrative needs to change. Unless the data deteriorate over the next five weeks, it is now likely the Fed initiates liftoff in December.

Are you out of touch?

LOS ANGELES | BOSTON | LONDON | PARIS

333 South Grand Avenue, Los Angeles, CA 90071 | payden.com