Weekly Commentary by Professor Jeremy J. Siegel

Another Good Payroll Report, but Where is the Output?

9:00 AM EDT, 3/9/2012

A very good payroll report, with private payrolls rising 233,000, 8,000 above estimates, in December, and especially January, payrolls were revised up by 61k. The gain was confirmed by the household data which showed another healthy increase of over 400,000 workers. The unemployment rate remained unchanged, which is not altogether unfavorable as there is hope that the improving economy will draw more workers into the labor pool. Indeed that happened as the participation rate, which has dropped dramatically over the past two years, jumped 0.2 to 62.9%. The U6 inclusive measure of unemployment dropped to 14.9%, another cyclically low, but still far above the 8% level experienced before the recession. Hourly wages were up a quiescent 0.1%.

As expected, stock index futures rose moderately and bonds fell on the news, with the ten-year Treasury reaching 2.04%. Since last October, the ten-year Treasury has been range-bound between 1.80% and 2.1%, and is now nearing the top of that channel. If economic data continue to improve, expect a breakout above 2.01%.

What is puzzling me is why GDP estimates for first quarter growth have stagnated – or even moved down – despite the robust payroll growth. Indeed the January trade balance, also announced at 8.30 this morning, showed a much wider-than-expected deficit, rising to $52.6b from the expected $49.0b. As a result I would not be surprised to see first quarter GDP growth estimates to be lowered to the 1.5% range later today. Certainly some of the recent stronger retail sales data have not yet appeared in the data, but the divergence between GDP growth and payrolls is quite surprising. One explanation is that productivity declined this quarter, but if that is indeed the case, it is certainly not a favorable development.

A year ago we experienced a rising stock market and hopes that the economic recovery was firmly in place were high. Then, exactly 52 weeks ago this Friday morning, Japan was struck with a devastating earthquake and tsunami. That and developing European problems stalled the world economic recovery. But Japan has recovered smartly from the earthquake and the ECB has allayed fears of a continent-wide financial crisis. The prospects for the rest of 2012 are much better than they were a year ago.
