Weekly Commentary by Professor Jeremy J. Siegel

Sharp Disparity in Labor Reports, Bond Yields Break Upward

1:45 p.m. EDT, 2/4/2011, Philadelphia PA

Rarely, if ever, has there been such a divergence between the household survey, from which the unemployment rate is derived and the payroll survey, which gives us the important non-farm payroll numbers. Over the past two months, payrolls increased an extremely modest 121k and 36k respectively while the unemployment rate plunged from 9.8% to 9.0%, the sharpest decline seen in that important indicator since the recovery from the deep 1982 recession. The markets were also confused, becoming very volatile after the numbers were released.

Although stock prices were mixed, the bond market broke downward as the yield on the ten-year bond surged above its narrow range of the past two months and now trades at 3.64%. One reason for this is that although today's data were ambiguous, the economic data this week have been very strong, with both the manufacturing and non-manufacturing PMI surveys running well above expectations, jobless claims lower than forecast, and monthly sales from retailers and the auto manufacturers were quite good. Furthermore, commodity prices continue to rise as WTI oil tops $90 once again and Brent soars over $100 a barrel. Bondholders see economic strength and inflation in the data and are reacting accordingly.

In a speech at the National Press Club yesterday Bernanke acknowledged far more confidently than in the FOMC minutes that the recovery has picked up steam. Nevertheless, he indicated that the pickup will not derail QE2, which is gaining a number of fans as the economy improves. Some economists worry about an economic slowdown once QE2 ends in June and advocate the extension of purchases to September to prevent a "summer lull." But unless the data deteriorate markedly, this is very unlikely.

Concerning Egypt, yesterday there was a report through the New York Times that Mubarak would step down quickly, installing his vice president, Omar Suleiman. That has not yet been realized, but, despite the violence, there has been no disruption to the oil pipeline or the Suez Canal and one can sense a bit less anxiety about this situation in the markets. Unless there is a threat to the oil flow, it now seems unlikely the Mideast situation will spark a major market disruption.
