

Weekly Commentary by Professor Jeremy J. Siegel

## Payroll Data Confirms Weather-Related Trends; Oil Sharply Lower

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Although the headline number of the latest payroll report, up 115k, disappointed, the details were nowhere near as downbeat. First, the February and March data were revised up, with private payrolls more than 50k stronger than earlier reported and private payroll in April were up 130k, only 30-35k below estimates. This increase was similar to the lower “whisper number” that followed the weak ADP report Wednesday and the disappointing ISM reported yesterday. The pattern of job growth confirms that January and February data were boosted about 50k each because of seasonal factors and we are giving back those gains in April, and possibly May.

The unemployment rate ticked down once again to 8.1%, nevertheless the household survey was unambiguously weak, with a 169k loss in employment and an even greater decline in the labor force. In fact the participation rate, the percentage of those aged 20 to 65 who are in the workforce, plunged to 63.6%, well below its all-time high of 67.3% reached in the first month of the new millennium. One has to go back to the early 1980s to find a lower participation rate. The drop in participation is due to the aging of the population, the decline in the participation rate of women (their rate almost doubled from 1950 to its peak in 2008), and the weak economy. The good part of this story is that the rate of job creation needed to keep the unemployment rate from rising continues to shrink, and is probably now near 100k a month. This does point to slower long-run GDP growth, but most of the slowdown over the past year has been caused by the drop in productivity growth, a decline which I see as temporary and reviving in the second half of this year.

The sharp decline in oil prices, with Brent off about \$4 so far today, will also be a plus for the economy in coming months. Retail gasoline prices have fallen to \$3.80 a gallon and another 20 cents at least is predicted from the futures market. This fall should boost real incomes and spending in the summer. The drop in commodity prices, the slow economic growth and the continuing anxiety from Europe have sent Treasury rates back down near the low end of their 1.80% to 2.1% range that prevailed since last August, until briefly broken on the upside during the strong data earlier this year. I am surprised by the resilience of Treasury bonds, yet I still believe that it is the most dangerous market for investors because of its record high valuation. Whenever the data turn stronger, and we had a very good claims number yesterday that could start that trend, I believe Treasury bonds will again be the one first hit. This may be the last time for the bond bulls to get out near the top.

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