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Flash Macro Update (03/06/2020)

After FED delivered a pre-emptive rate cut of 50 bps in an emergency meeting, the most important data release of the month was today and the data confirmed that US economy keeps on creating jobs, but long awaited inflation is still not in the horizon. However, we should note that market players tend to ignore the most recent macro data as they are mostly from January and February, which do not show the impact of Coronavirus on economic activity yet. In that regard, March macro data will be followed closely rather than the recent data releases. Going back to the non-farm payroll data for February, February non-farm payroll data proved once again that steady/healthy growth continues in the US. Job data is always the most important macro data, as it gives clues to the market about the state of economic activity and inflationary pressures at the same time.

According to the data, U.S. economy produced 273k non-farm jobs versus expectations of 175k in February. In addition, the January non-farm payroll data was revised up from +225k to +273k, while there was another upward revision in December reading by 37k. We observe that labor force participation rate remained flat at 63.4% in February, which also shows the strength of US economy. With the February data, unemployment rate in the US was 3.5% in February compared to 3.6% in January hovering at its lowest level in the last five decades.

As important as the aforementioned figures, average hourly earnings came in at +0.3% in February, which was in line with the consensus and point to an annual increase of 3.0% in February compared to 3.1% in January. So overall, the data continued to signal that there is no serious inflationary pressure and no recession yet. Employment increased both in private and public sectors. When we look at the details, we see that the job cuts in the retail sector continued in February which seems to be bad news. There was also a decline in transportation employment in February as well.

In terms of monetary policy, the data does not suggest a new information, in our view. Because of Coronavirus FED has already cut its interest rate; apart from 'safe havens', such as precious metals, US securities, etc., there is a correction in global financial markets. Investors will probably look for signs to see whether Coronavirus fades away or gets pandemic. We foresee that news on Coronavirus will overshadow all macro data for now.

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