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Flash Macro Update (02/07/2020)

Most important data release of the month was today and the data confirmed that US economy keeps on creating jobs; continues to grow, but long awaited inflation is still not in the horizon. In other words, January 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. The data was actually better than expected and it did not implicate a major shift.

According to the data, U.S. economy produced 225k non-farm jobs versus expectations of 160k in January. In addition, the December non-farm payroll data was revised up from +145k to +147k, while there was another upward revision in November reading by 5k. We observe that labor force participation rate inched up to 63.4% in January from 63.2% in December, which also shows the strength of US economy. With the January data, unemployment rate in the US was 3.6% in January compared to 3.5% in December hovering at its lowest level in the last five decades.

As important as the aforementioned figures, average hourly earnings came in at +0.2% in January, which was lower than expectations (cons: +0.3%) and point to an annual increase of 3.1% in January compared to 3.0% in December. So overall, the data continued to signal that there is no serious inflationary pressure and no recession yet. It is worth noting that annual average hourly earnings were 3.2% in end-2018. Employment increased both in private and public sectors. When we look at the details, we see that the job cuts in the retail sector resumed in January which seems to be bad news. There was also a decline in manufacturing employment in January as well.

In terms of monetary policy, the data does not suggest a new information, in our view. Growth in the US continues despite weak investment appetite. Job market is still strong despite some slowdown. Inflationary pressures, if any, are still contained. FED's view on US economy is confirmed by macro data and there is no need for a further rate cut in near future, in our view.

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