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Unemployment Drops but Wages Sag; Trump's Nominations More Important

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The interesting parts of the labor report was what happened away from the headline payroll number (which virtually hit expectations at up 178k). The unemployment rate spiked down to a4.6%, well below the Fed's definition of the "full employment" rate, and only 2 tenths above the lowest unemployment rate in the boom that preceded the financial crisis. Yet, wages fell one tenth of a percent. To be sure, average hourly wage growth does jump around on a month-to-month basis (it was up 4 tenths last month), nevertheless, despite what could be considered a "tight" labor market, we are no seeing any evidence of serious wage inflation. None of this matters for December's rate decision, which is unquestionably an increase of 25 bps. What will be interesting in two weeks when the FOMC meets is their projection of the number of rate increases in 2017 and their estimates of economic growth and unemployment under a Trump administration.

More important than the labor report is the nomination of Mnuchin and Ross to positions of Treasury and Commerce. Both of these individuals are market-savvy and appreciate the importance of the global economy. These appointments lower the probability that Trump will move into an aggressive anti-trade, protectionist economic policy. I believe that the market would have rallied more had it not been for the further pressure from the bond market, where the ten-yield approached 2 ½%. Mnuchin mentioned that total taxes of high-income individuals would not decline, implying that closing "loopholes" would offset lower taxes. To be sure, corporate taxes would be lowered, but it will be interesting to see many loopholes are closed. President Reagan, along with Congressional Democrats, sharply lowered rates and eliminated loopholes in the 1980s. Of course, over the years, loopholes reappeared along with higher rates. This does not mean that we should not "cleanse" the tax code every couple of decades. But it does indicate how challenging "tax reform" is.

I have been asked if I am worried about the pressure put on Carrier Corp. to keep its plant open in Indiana and Trump's statements that is will be "very, very difficult" for firms to shift jobs abroad under his administration. Yes, these threats are not good for the US economy. But lower corporate taxes and less regulation are a thousand times more important to both our economy and the stock market. In fact, if the way Trump convinces firms to stay in the US is by easing those burdens, then it will be a win-win for both firms and workers. Of course, only time will tell whether Trump by pro-business policies can induce firms to stay. But it is premature to conclude that the Carrier episode means that the Trump will meddle excessively in private corporate decisions.
