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## Labor Report Confirm Fed Move; ECB Miscommunication

**Friday, 9:05 a.m. EST**

The labor report, as expected, confirmed that the Fed is ready to increase rates at its December 16 meeting. Payrolls came in at 211k, 11k more than expected, and there were 35k further upward revisions to the September and October data. The unemployment rate held at 5.0% thanks to a slight rise in the participation rate (the first increase since May). The U6 unemployment rate did tick up two tenths to 9.9%.

This is the type of employment report that we need more of. We want more people to look for work so that the economy can continue to generate 150k to 200k new jobs without squeezing the labor market. Had the participation rate not declined so strongly over the past 3 years, the labor market would not be as stretched and the Fed would likely still be on hold.

The early reaction of the equity market is favorable. Certainly Treasury yields are rising, but equity futures have jumped, suggesting that stocks have largely digested the coming increase. There are still possible events that could derail the Fed's path, but they would have to come through the commodity market. Oil prices have been firming lately because of the dollar decline and on the chance that OPEC might act to curtail output, although that is given a low probability. If oil prices drop into the low to mid 30s, the doves on the FOMC will not be pleased, but they will be bought off by wrapping the funds rate increase in an even more dovish package (implying that the Fed will hike at a rate of less than 25 bps per quarter).

Of equal importance to the payroll report was the sharp market reaction to yesterday's ECB's policy actions. Although Draghi extended the QE six months and lowered the deposit rate (to a minus 0.3%), the market expected much more, particularly an increase in the size of the monthly purchases. The dollar sold off sharply and equities and bonds tanked on yesterday's news.

This was the ECB's fault. It was well known that the market expected more and Draghi had a responsibility to inform the market if he thought that less would be offered. It is possible that Draghi sought more and did not get it, but the tenor of his remarks indicated that was not the case. In any case, US stocks followed European stocks downward, since the ECB's move implies that central banks may as a group be a little less likely to provide accommodation. Draghi should try to allay those fears in subsequent remarks.

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