John Dessauer Investments, Inc.

www.johndessauerinvestments.com

John Dessauer's market review and update as of Wednesday April 12, 2017

To say the least, the March employment data are confusing. On Wednesday April 5, Automatic Data Processing, a payroll processing company, said their data showed that U.S. companies added 263,000 workers in March. This is the best month since December 2014, and far better than economists' expectation of 187,000 jobs. Two days later - on Friday April 7 - the Labor Department issued a completely different report saying the economy added only 98,000 jobs in March, the worst showing in ten months. In addition, January and February job creation was revised down by 38,000 jobs. If the two views on March job creation are not confusing enough, the Labor Department added that the unemployment rate fell to 4.5% in March. A decline in the unemployment rate is usually associated with strong job creation. Poor job creation and a falling unemployment rate are strange bedfellows.

The stock market surged after the April 5 report of strong March job creation. Fortunately, the set-back after the Labor Department's dismal job report on the 7th was modest. The solid stock market seems at least partly due to the election of President Trump and his plans to stimulate economic growth and job creation. This has encouraged some of the unemployed to renew efforts to find a job. The labor market participation rate, which includes people looking for work, held steady in March at the eleven month high of 63%.

One obvious question is: why were Automatic Data Processing and the Labor Department so far apart on March job creation? Part of the answer is in how the two calculate the number of new jobs. Automatic Data Processing is a large publicly traded company (symbol

ADP on the New York Stock Exchange) that deals with real payrolls from other private sector companies. Automatic Data Processing saw real growth in their business and projected that out onto the broad economy. The Labor Department uses surveys to determine the job creation condition. The retail sector of the economy is suffering. There were 60,600 retail jobs lost in February and March, the sharpest job cutting pace in seven years. While job losses in retail are painful, they are a relatively minor burden on the overall economy. And retail has been losing jobs for a long time. Michael Niemira, principal of The Retail Economist, a research firm, points out that the retail industry now accounts for 10.9% of U.S. jobs, well down from the 11.6% in 2000. The sharp February and March retail job losses were included in the Labor Department's March job creation report. The severe turbulence in the retail industry is another part of the explanation for the wide difference between the Labor Department's and Automatic Data Processing's March job creation reports.

The downtrend in retail jobs is likely to continue. The monthly losses may diminish, but there will continue to be losses. One reason is that it is much cheaper to make an on-line sale than an in-store sale. Pete Madden, a director of AlixPartners, LLP, a retail consulting firm, says that the labor cost involved in selling an item on-line through a distribution center can be 50% less than if it were sold in a store. Stores are also increasing the use of technology to reduce labor costs. Shopping kiosks and iPads can be used by customers to buy on-line while they are in a store.

The bottom line is that both Automatic Data Processing and the Labor Department are providing valuable information. The broad labor market is relatively strong as the low unemployment rate and the Automatic Data Processing report imply. And the retail industry really *is* undergoing major change.

The stock market got it right. The retail industry turbulence and confusing March employment data do not detract from the on-going synchronous global economic recovery. And that is what is most important for future corporate sales and profits. The bigger question is how long can the synchronous recovery continue? Analysts at Morgan Stanley think it can last quite a while. They think the central banks in developed markets, including the United States, are "unlikely to be provoked into aggressive tightening." That said, they also see six more interest rate hikes in the United States by the end of next year. That would lift U.S. short term interest rates to 2.00%-2.25%. (Finally, in 2019, savers might get more than small change in interest on their cash holdings.)

Morgan Stanley's experts go further: "However, if the global private investment recovery, particularly in the US, is stronger than we expect, it will support productivity growth and sustain the global expansion longer."

In other words, the outlook for corporate sales and profits growth is currently improving. And if the U.S. economy gains strength, economic conditions could continue to support sales and profits growth into 2019 and even 2020. The next major setback for stocks could be years away.

What are the Chinese up to?

According to a report in the *Wall Street Journal* Chinese companies issued $52.6 billion worth of U.S. dollar denominated bonds in the first quarter of this year. That is five times the amount they issued in the opening quarter of 2016 and 72% more than in the last three months of 2016. Why the sudden surge in raising dollars? The *Wall Street Journal* didn't answer the question. However, a logical answer is that they want dollars to invest in U.S. assets. The Chinese may be coming to the U.S. to make goods to sell here and elsewhere. That is an intriguing idea in light of President Trump's anti-China trade rhetoric. We know that the costs of

manufacturing, shipping, finance and insurance have been shifting in favor of the U.S. Could it be that the shift has gone far enough to make the U.S. so attractive that Chinese companies are ready to invest more than $50 billion? Time will tell.

I will have the next market review and update for you one week from today on Wednesday April 19, 2017.

All the best,

John Dessauer
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