

Bond Yields Rise on Unexpectedly Strong January Jobs Report

Company payrolls fell short of forecasts last month, but much of the remaining employment data was strong enough to support continued patience by the Fed. Although the nonfarm payroll count increased by just +143k in January, the previous two months were revised upward by a combined +100k with December now at a 26-month high of +307k. The unemployment rate, which appeared to be climbing rapidly six months ago, has reversed direction and returned to its lowest level since last May.

Unexpectedly solid labor market conditions, along with lingering inflationary pressure and uncertainty surrounding policies by the Trump administration will likely keep the FOMC on hold beyond the March meeting. The futures market now indicates the next rate cut is unlikely before June or July.

Notable January job gains were concentrated in healthcare and social assistance (+66k), retail trade (+34.3k), and state and local government (+23k). Sectors shedding jobs last month included business and professional services (-11k) and leisure and hospitality (-3k). The federal government added +9k jobs in January. Trump administration policies suggest future declines in this category.

The separate household survey indicated considerable strength as the civilian labor force increased +2.197 million in January while the number of employed workers rose by +2.234 million. This combined to nudge headline unemployment down from 4.1% to 4.0%, matching an eight-month low.

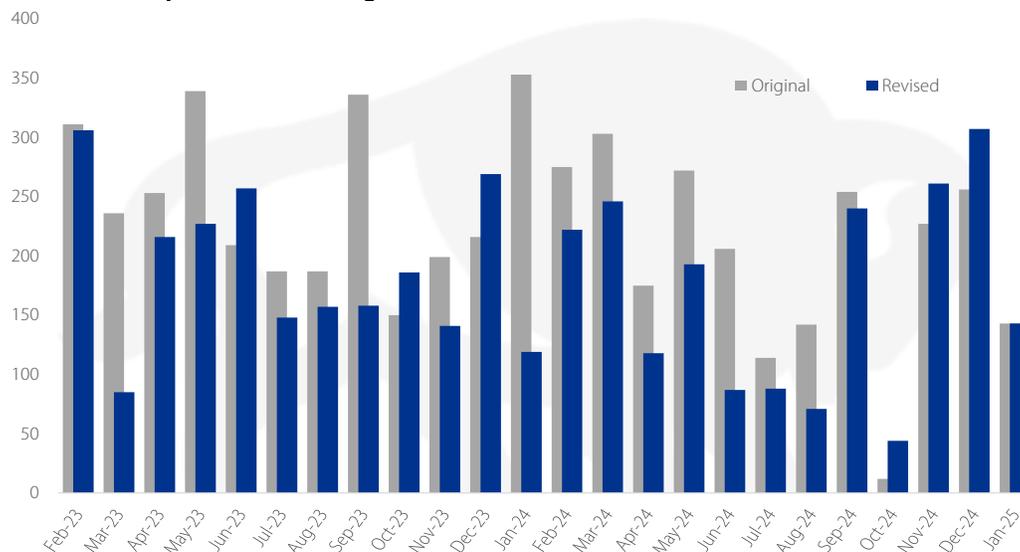
Hourly earnings climbed +0.5% last month, pushing the year-over-year wage gain to +4.1%, well above the +3.8% forecast. This is obviously positive for workers but complicates Fed efforts to lower inflation.

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

The Bureau of Labor Statistics reported the California fires and winter weather had no discernable affect on the January data, although the average workweek dropped from 34.3 hours to a 15-year low of 34.1.

Bonds are selling off in early trading, while equities surrender some of the week's gains.

Market Indications as of 9:18 A.M. Central Time

DOW	Down -116 to 44,631 (HIGH: 45,014)
NASDAQ	Down -146 to 19,646 (HIGH: 20,174)
S&P 500	Down -10 to 6,074 (HIGH: 6,119)
1-Yr T-bill	current yield 4.23%; opening yield 4.17%
2-Yr T-note	current yield 4.27%; opening yield 4.21%
3-Yr T-note	current yield 4.31%; opening yield 4.23%
5-Yr T-note	current yield 4.35%; opening yield 4.27%
10-Yr T-note	current yield 4.50%; opening yield 4.43%
30-Yr T-bond	current yield 4.70%; opening yield 4.64%

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