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The Second Quarter Began with a Disappointing Jobs Report

By Louis Navellier

The unease in Korea and a disappointing jobs report on Friday delivered the biggest weekly loss of the year so far, but the decline wasn't all that bad – a 1% drop in the S&P 500 and a slight (0.1%) drop in the Dow. However, many smaller stocks fared worse – with the Russell 2000 declining 3% last week and NASDAQ off nearly 2%. As I've been saying in recent weeks, the market is becoming more selective, so investors need to be more attentive to company-specific news and trends.

Stat of the Week: 496,000 Workers Left the Labor Force in March

Friday's much-awaited jobs report offered a confusing array of numbers: The Labor Department said that 496,000 people dropped out of the labor force and only 88,000 found new jobs in March, but that resulted in a 0.1% drop in the jobless rate to 7.6%, since only those looking for work are counted as unemployed.

The labor participation rate – i.e., those Americans aged 16 to 64 either working or looking for work – fell to 63.3% in March, down from 63.5% in February and 66.5% a decade ago. The labor participation rate is now at its lowest level since 1979. In fact, the only positive detail in Friday's dismal jobs report was that the Labor Department revised its January and February payroll job totals significantly higher, to 148,000 (up from 119,000) in January and 268,000 (up from 236,000) in February. That means we added 504,000 jobs last quarter, but the market responded more to the March decline than the positive upward revisions.

Last week's other job-related statistics were also disappointing. On Wednesday, ADP reported that only 158,000 private payroll jobs were created in March, down from an upwardly-revised 237,000 in February and substantially below economists' consensus estimate of 215,000. The next day, the Labor Department said that new jobless claims rose 28,000 to 385,000 and the four-week average rose by 11,250 to 354,250.

The good news for the stock market is that the Fed is far more likely to keep fueling the economy with \$85 billion a month in cheap (near-zero interest rate) QE money for as long as we see job reports like this.

Other Statistics were "Mixed" but the U.S. is Faring Better than Europe

Last Monday, The Institute of Supply Management (ISM) surprised economists by announcing that its manufacturing index declined to 51.3 in March, down sharply from 54.2 in February. This was a surprise, since the consensus estimate was for the index to remain unchanged at 54.2. However, on the positive side, 14 of the 18 industry sectors rose in March, so most American industries are still performing well.

Then, on Wednesday, ISM announced that its service sector index declined to 54.4 in March, down from 56.0 in February. On the positive side, any number above 50 signals expansion, and a rising majority (15 of the 18) of the service sector industries surveyed expanded in March, up from 13 industries in February.

On Tuesday, between these two ISM survey releases, the Commerce Department reported that factory orders rose a strong 3% in February, the biggest gain in five months. This surge was attributable largely to a rise in commercial aircraft orders. Orders for durable goods rose a robust 5.6% in February, while non-durable goods orders rose a scant 0.8%. Overall, it appears that due to a resurging manufacturing sector and inventory rebuilding, first quarter GDP growth is on track for 2% to 3% annualized gains.

Overseas, Markit reported on Tuesday that its euro-zone Purchasing Managers Index (PMI) fell to 46.8 in March, down from 47.9 in February, the sharpest decline in three months. Also on Tuesday, Eurostat said that over 19 million workers were unemployed, amounting to 12% of the overall euro-zone workforce and over 26% in both Greece and Spain. These are the highest jobless rates ever recorded in the euro-zone.

As a result of these latest statistics, the Fed and the European Central Bank (ECB) are expected to remain very accommodative, but the gold medal for central bank easing last week had to go to the Bank of Japan:

The Bank of Japan Makes the ECB and Federal Reserve Look Miserly

Last Thursday, the Bank of Japan announced a super-charged round of “quantitative easing” (QE) when it promised to add about \$1.4 trillion to the Japanese economy over the next two years. Per capita, this is much more accommodative than the Fed’s \$85 billion per month, which amounts to \$1.02 trillion per year. Since Japan’s economy is only about one-third the size of the U.S. economy and Japan has 200 million fewer people, the Bank of Japan’s per capita volume of money pumping is, in the words of BOJ Governor Haruhiko Kuroda, “an unprecedented degree of monetary easing.” Immediately after the news came out, Japan’s Nikkei stock index surged and the yen dropped 3% against the euro and the U.S. dollar.

Back in the U.S., the infighting at the Fed is now on full display. Last Tuesday, Richmond Fed President Jeffrey Lacker (a “hawk”) and Chicago Fed President Charles Evans (a “dove”) debated each other in public. Evans said that the Fed’s primary mission is to keep the unemployment rate low, by fueling unprecedented monetary easing, while Lacker warned that the Fed is sowing the seeds of future inflation.

On Wednesday, another dove, San Francisco Fed President John Williams, shocked Wall Street when he said, “If all goes as hoped, we could end the purchase program sometime later this year.” Of course, he said this before Friday’s dismal jobs report, so maybe Friday’s report will be bullish for stocks, since it ensures that the Fed will keep pumping out more money, as long as the recovery is not “going as hoped.”

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