MORNING BRIEFING
February 6, 2017

Entrepreneurial vs. Crony Capitalists

See the collection of the individual charts linked below.

(1) Trump takes credit for latest strong jobs report. (2) Does anyone in Washington really "create" jobs? (3) Keynes vs. Bastiat on buried bottles and broken windows. (4) Small and medium-sized companies do most of the hiring as they grow. (5) Crony capitalists tend to run big companies that want to protect what they've got. (6) Are Trump's billionaires populists or cronies? (7) Goldman doing God's work again. (8) Demographic impediments to Trump's goal of 25 million new jobs. (9) Can the Phillips Curve be saved? (10) The Fed is lying low. (11) Movie review: "Fences" (+ +).

Capitalism: Good Kind vs. Bad Kind. President Donald Trump has promised to create 25 million jobs in the United States by boosting growth and also by bringing jobs back from overseas, particularly from Mexico. Our new president certainly thinks big. He made lots of campaign promises and started to deliver on some of them during the first two frenzied weeks of his administration. On Friday, he took credit for the better-than-expected 227,000 rise in January's payroll employment. So he only has to create 24,773,000 more jobs to meet his goal. While January's increase occurred during Obama's last month as president, Trump claims that optimism about his policies boosted hiring.

Trump's goal is not only startlingly ambitious but also a stretch. Debbie and I have already bought into Trump's pro-growth policy agenda. We raised our real GDP forecast from 2.5% to 3.0% for this year. We think he will succeed in cutting taxes and regulations. We even think that his pivot away from multilateral trade agreements to bilateral ones makes sense, and might actually save, rather than kill, globalization. Fair trade is not at all inconsistent with free trade and could also improve income equality.

Of course, all presidential candidates promise that their policies will create jobs. Almost all of them have done so, though some more than others (*Fig. 1*). However, in our opinion, presidents don't "create" jobs; employers create jobs, especially small and medium-sized businesses. Fiscal and monetary policies can make it either easier or harder for them to do so. Even during the Great Depression, when the government actually did create government jobs related to building infrastructure, the overall jobless rate remained extremely high because the New Deal included a deluge of bad-deal regulations on business (*Fig. 2*).

The notion that the government can create jobs, boosting economic growth and prosperity, was first introduced by none other than John Maynard Keynes, of course. In *The General Theory of Employment, Interest, and Money*, he famously wrote:

"If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing."

Actually, there is another alternative that is "better than nothing" and far better than Keynes' if-all-else-fails solution. The government could adopt a policy of do-no-harm to small businesses. Successful small companies become medium-sized companies and sometimes even large companies. Along the way, they tend to hire lots of people. The ADP data for private-sector payrolls is available since 2005 and includes series for small (1-49 employees), medium-sized (50-499), and large (over 500) companies. During January, they accounted for 40.5%, 37.7%, and 21.8% of payrolls, respectively (*Fig. 3*). Since the start of the data, they've added 5.9 million, 5.0 million, and 1.2 million to their payrolls (*Fig. 4*).

To help small and medium-sized companies grow so that they will hire more workers, the government must sever its crony ties with large companies that all too often promote, lobby, and pay for government policies that create barriers for their smaller competitors. In other words, small businesses are run by entrepreneurial capitalists, who want to grow their businesses, while large companies are all too often run by crony capitalists, who want to protect their businesses, not only from foreign competitors but also from domestic ones. To do so, they become cronies of politicians who can use the government's power to do that for them.

So far, Trump has said all the right things about helping small businesses to succeed, pledging to cut their taxes and regulations. The National Federation of Independent Business (NFIB) conducts a monthly survey of small business owners. Over the past four years, more of them have been saying that their biggest problem is either taxes or regulation as fewer said it was poor sales (*Fig. 5*). No wonder that their "animal spirits" were energized by Trump's election and promises to cut taxes and deregulate, as evidenced by the 10.9-point jump in the NFIB Small Business Optimism Index during the last two months of 2016 to 105.8, the highest since December 2004 (*Fig. 6*).

So what are we to make of all the billionaires that Trump has put in his administration? Are they all populists now? Most of them have said they want to give something back to the country that has been so good to them by serving in the government. I'll give them the benefit of the doubt for now. However, keep in mind that they will certainly benefit immediately from the legal tax maneuver offered since 1989 to executive-branch appointees and employees. It was designed to help ease the tax consequences of being forced to suddenly sell investments. The federal program is encoded in Section 2634 of federal ethics laws and known as a "certificate of divestiture." According to a 12/2 *WaPo* article on this subject, "The tax advantage will allow Trump officials, forced by ethics laws to sell certain assets, to defer the weighty tax bills they would otherwise owe on the profits from selling stock and other holdings." More specifically:

"While officials who are forced to sell will be able to avoid capital-gains taxes, they will have to pay them at a later date if they sell the new securities, such as Treasury bonds and mutual funds, approved by federal ethics officials. Still, the benefit offers strong advantages for the officials, including allowing them to cheaply rebalance their holdings and delay their tax burden on any investment gains. That delay could also permit them to pay a lower capital-gains tax rate in the future, as many Republicans favor."

On Friday, one of our favorite S&P 500 sectors had a very good day indeed, thanks to the announcement by Gary Cohn, the director of Trump's National Economic Council, that the administration would move quickly to gut Dodd-Frank regulations on financial institutions. As a result, the S&P 500 Financials was the best-performing sector on Friday, rising 2.0%, led by a 4.2% increase in the Investment Banking & Brokerage industry (*Table 1*). Also among the top 10 outperforming industries in the S&P 500 were Diversified Banks (2.7%), Consumer Finance (2.2), Asset Management & Custody Banks (2.1), and Regional Banks (2.1).

Goldman Sachs shares jumped 4.6% on Friday. Just before he joined Trump's team, Cohn served as president and chief operating officer of Goldman. Upon his departure, Goldman handed him his severance pay of $285 million, and he certainly showed his appreciation. That sure smells of crony capitalism to me. I've never agreed with Elizabeth Warren about anything, but I do agree with the letter sent by the Democrat from Massachusetts to Cohn on Friday questioning the "astonishing windfall," and its impact on the former Goldman Sachs exec's ability not to "play favorites" when he makes decisions about the economy. The letter, signed by Warren and Senator Tammy Baldwin (D-WI), asks Cohn to recuse himself from decisions directly or indirectly related to Goldman.

By the way, Keynes' buried-bottles theory doesn't hold water when you consider the unseen ripple effects of burying money, highlighted by Frédéric Bastiat's parable of the broken window, which was introduced in his 1850 essay *Ce qu'on voit et ce qu'on ne voit pas* (*That Which Is Seen and That Which Is Not Seen*). Bastiat's essay explains why the Keynesian idea would not actually be a net benefit to society. Specifically, recovering buried money and returning it to circulation is seen as an economic boom by Keynes, but unseen is what economic effect it would have had if not buried in the first place.

Furthermore, it was Keynes who popularized the concept of "animal spirits," but he viewed them more as a driving force behind speculation than entrepreneurial capitalism, about which he was remarkably clueless.

Employment I: Shovel-Ready Workers. Is promising to create 25 million jobs an unrealistic whopper by a fellow who tends to tell whoppers? Or is Trump simply thinking big, as he is wont to do? In a 9/15 campaign speech at the New York Economic Club, he predicted that his plan would increase employment by 25 million new jobs over the next 10 years. Debbie and I looked at the 10-year change in payroll employment since the start of the data during 1939 (*Fig. 7*). The most this series has ever increased was 24.2 million jobs from May 1991 through May 2001. That period spanned the presidencies of George H. Bush (41) and Bill Clinton. Looking at the eight-year changes, we see that the biggest increase for any two-term president was 23.5 million under Bill Clinton (*Fig. 8*). So the economy has added nearly 25 million jobs before, but it may be harder to do so again over the next 10 years.

Trump's goal would be much more realistic if the economy were in a severe recession right now, since that would provide more upside during the initial recovery. Payroll employment has increased 15.8 million since it bottomed during February 2010, but only 8.0 million over the past 10 years. While Trump's policies might stimulate more economic growth, there are still natural demographic limits to the number of employable people. Consider the following:

(1) *Population.* To create 2.5 million jobs per year, on average, over the next 10 years requires the availability of that many able-bodied workers. Over the past 10 years through January, the civilian working-age population (16 years old or older) rose 2.3 million per year on average (*Fig. 9*). However, the population that is 16-64 years old increased 1.1 million, on average. It's hard to imagine that this group will increase much, if at all, over the next 10 years as the large Baby Boom cohort retires and is replaced by a smaller cohort of first-time young adult workers.

(2) *Labor force.* Over the past 10 years through January, the civilian labor force increased by only 657,000 per year, on average, the lowest since November 1959 (*Fig. 10*). The 16-64 component of the labor force rose just 291,000 per year over this same period. Again, the Baby Boom demographics don't bode well for any pickup in coming years.

Even if Trump's policies were implemented eight years ago rather than Obama's policies, the Great

Recession might still have been followed by a weak recovery in the economy and jobs. As I've noted before, the unemployment rate during the Obama years lines up remarkably well with the unemployment rate during the Reagan years (*Fig. 11*). Really bad recessions might have a tendency to be followed by weak recoveries.

(3) *NILFs.* Over the past 10 years through January, the number of people who are not in the labor force (NILFs) rose 1.7 million per year, on average (*Fig. 12*). The number of NILFs who are 65 years old or older rose close to 1.0 million per year, on average, the fastest on record. In January, there were a near-record 94.4 million NILFs (*Fig. 13*). However, only 6.1% of them wanted a job, though they weren't actively seeking one (*Fig. 14*). That's still 5.8 million employable people who could make Trump's employment record greater if many of them get jobs. But that's a pretty big "if."

(4) *Trump.* Trump's website supports his job-creating claim as follows: "For each 1 percent in added GDP growth, the economy adds 1.2 million jobs. Increasing growth by 1.5 percent would result in 18 million jobs (1.5 million times 1.2 million, multiplied by 10 years) above the projected current law job figures of 7 million, producing a total of 25 million new jobs for the American economy."

A 9/15 Fact Sheet on Trump's website states on this same topic: "Lifting unnecessary restrictions on all sources of American energy (such as coal and onshore and offshore oil and gas) will (a) increase GDP by more than $100 billion annually, add over 500,000 new jobs annually, and increase annual wages by more than $30 billion over the next 7 years; (b) increase federal, state, and local tax revenues by almost $6 trillion over 4 decades; and (c) increase total economic activity by more than $20 trillion over the next 40 years."

Economic theory may run into the brick wall of demographic reality.

Employment II: Waiting for Godot. While we are waiting to see how well the Trump administration executes its economic program, and how well it works in "creating" jobs, Fed officials, especially Fed Chair Janet Yellen, are still waiting for wage inflation to pick up from around 2.5%-3.0% to 3.0%-4.0%. During her first press conference as Fed chair on March 19, 2014, she stated that the higher range would convince her that the labor market is at full employment and that almost everybody who wants a job has a job. Like the good liberal labor economist that she is, she wants everybody to be gainfully employed. As Melissa discusses below, the FOMC statement released after last week's meeting of the committee suggested that Yellen and her colleagues are willing to let the economy heat up some more to get the job done in the labor market.

For now, let's review the latest data and assess why wage inflation has yet to heat up in response to the low unemployment rate, as posited by the inverse relationship between the two in the Phillips Curve model:

(1) *Earned income proxy.* First, the big picture: Our Earned Income Proxy for wages and salaries in private industry rose to yet another record high, as Debbie reviews below (*Fig. 15*). This augurs well for income and spending during January. Consumer confidence measures held onto their post-election surge last month.

(2) *Wages.* The unemployment rate has been below 5.0% for the past nine months through January. Job openings and quits are at or near record highs. Small business owners are reporting that it's getting harder to find workers. Yet wage inflation, as measured by the average hourly earnings, has been below 3.0% on a y/y basis since May 2009. It was 2.5% in January, with the three-month annualized rate just 1.5%, the lowest since December 2014.

(3) *The Curve.* The Phillips Curve doesn't seem to be working. Debbie and I think that the problem may be that average hourly earnings is an average and has been subdued by the replacement of high-wage retiring Baby Boomers with low-wage younger workers. The Atlanta Fed's median wage growth tracker has exceeded 3.0% for the past 14 months through December (*Fig. 16*).

The Fed: Lie Low. The FOMC statement released after the 2/1 meeting of the Fed's policymaking committee was remarkably dovish. The word "gradual" appeared twice to describe the likely pace of increases in the federal funds rate, and there was no hint that the next rate hike is likely to occur at the next meeting. For now, Fed officials seem to be biding their time on the sidelines while President Trump steamrolls ahead with his economic plans. Perhaps they are not so sure that Trump will be able to deliver on his fiscal stimulus program, or it might take a while for them to be implemented and executed. Or perhaps they just don't want to be the subject of the President's irate tweets. Trump has two positions to fill on the Fed's Board of Governors, and he might pick mavericks who will cause Fed Chair Janet Yellen lots of agita. In any event, the rate path for 2017 is likely to be gradual, i.e., two or three 25-bps rate hikes. Let's review what we know:

(1) *Presser meetings*. There are seven FOMC meetings remaining this year. Following four of those meetings, the Fed's updated economic projections will be released and the Fed chair will hold a press conference: March 14-15, June 13-14, September 19-20, and December 12-13. These are the ones in which the Fed is more likely to act, giving Yellen an opportunity to explain the decision.

The December Summary of Economic Projections included a median projection for the federal funds rate by the end of 2017 of 1.4%. That implies three 25-bps increases this year. We aren't expecting any significant changes in current projections during March. Odds are that the Fed won't move in March given that both wage and price inflation remain subdued and that the status of Trump's plans will still be up in the air. The odds for rate hikes then increase during the remaining three presser meetings for the year. That would be consistent with the latest statement, which continued to contain relatively dovish language: "[T]he Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate."

(2) *Subdued inflation.* Looking at the changes in the January versus the December statements, the wording about economic activity, the labor market, household spending, consumer and business sentiment all was tweaked to be slightly more positive. That's not the case for the wording about inflation, which has "increased in recent quarters but is still below the Committee's 2 percent longer-run objective," especially "market-based measures of inflation compensation," which "remain low." On the other hand, the statement also noted that inflation "will rise" rather than is "expected to rise." Not stated was that wage inflation remains below Yellen's target range, as noted above.

(3) *Fiscal amnesia*. Last summer, Fed officials seemed increasingly concerned that monetary policy might no longer do much to boost economic growth. Several Fed officials called on fiscal policymakers to give it a try. For example, FRB-SF President John Williams wrote last August in an Economic Letter: "We've come to the point on the path where central banks must share responsibilities. There are limits to what monetary policy can and, indeed, should do. The burden must also fall on fiscal and other policies to do their part to help create conditions conducive to economic stability."

Fed officials might have gotten more than they wished for in Trump. According to the 1/9 *FT*, Williams changed his tune, saying: "If you were to ask me three years ago, four years ago, when unemployment was still high and the economy was still digging out of a hole, I would have said, sure, fiscal policy would be great to help expedite getting back to full employment--short-term fiscal stimulus. But today I don't think we need short-term fiscal stimulus." Williams continued: "If the economy ends up for whatever reason--fiscal policy or other things--growing faster, if we have more job growth and inflationary pressures pick up, then we will have to raise rates faster." Williams isn't the only Fed official who has made statements like this one.

(4) *Room to run*. Nevertheless, January's dovish statement implies that the FOMC believes there's some room for the US economy to run hotter for a while. December's Summary of Economic Projections showed a 2.1% increase in real GDP for 2017, well below Trump's 3%-4% target. Odds are that forecast won't be raised much if at all. Trump might then tweet: "Useless Fed people don't get it. My program is going to make America's growth great again!" Then again, he might lie low, recognizing that the Fed's gradual approach--allowing rates to lie low--might be ideal for what he hopes to accomplish.

Movie. "Fences" (+ +) (*link*) is about a working-class African-American man struggling to support his family in the 1950s. He missed out on becoming a great baseball star, and works in Pittsburgh's sanitation department. He talks a good game about how much he loves his wife and provides for her and their son. However, he cuts some corners along the way. Like the rest of us, he is only human. The movie, which features Oscar-nominated performances by Denzel Washington and Viola Davis, is based on a play, and has that feel. It is somewhat reminiscent of "Death of a Salesman" and "A View from the Bridge."

CALENDARS

US. Mon: None, Harker. **Tues:** Merchandise Trade Balance -$44.9b, JOLTS, Consumer Credit $20.0b. (Bloomberg estimates)

Global. Mon: Eurozone Sentix Investor Confidence 16.8, Germany Factory Orders 0.7%m/m/4.2%y/y, RBA Rate Decision 1.50%, Draghi. **Tues:** Germany Industrial Production 0.3%m/m/2.5%y/y, Japan Leading & Coincident Indexes. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.2% last week, ranking 25th of the 49 markets as 26 rose in US dollar terms--compared to 34th a week earlier, when it gained 1.0% as 42 markets moved higher. The AC World ex-US index underperformed the US MSCI for the ninth time in the past 12 weeks, rising 0.1% for the week versus a 1.6% gain a week earlier. EM Latin America was the best-performing region last week with a gain of 0.7%, followed by EM Asia (0.2). The week's worst-performing regions: EM Eastern Europe (-0.6), BRIC (-0.2), EMEA (-0.1), EAFE (0.0), and EMU (0.0). Last week's best-performing countries: Turkey (10.5), Argentina (4.1), Colombia (3.0), and Mexico (2.7). Morocco (-2.0) was the worst performer, followed by Philippines (-1.5), Greece (-1.4), and Russia (-1.4). In January, the US MSCI was up 2.0%, ranking 33/44 and behind the 3.5% gain for the AC World ex-US index as all regions rose. That compares to a 1.7% gain in December, when it ranked 29/44 and behind the 2.4% rise for the AC World ex-US when most regions rose. The best regions in January: EM Latin America (7.5), BRIC (6.3), and EM Asia (5.9). January's worst-performing regions, albeit with gains: EMU (1.4), EMEA (1.6), EM Eastern Europe (2.0), and EAFE (2.9).The US MSCI is up 2.8% ytd, which ranks 34/49, and has been underperforming the AC World ex-US (4.2) on a ytd basis for the past four weeks. Forty-five of the 49 markets are positive ytd, led by Argentina (23.9), Brazil (12.3), Poland (12.0), New Zealand (9.5), and Korea (9.4). The worst country performers ytd: Greece (-3.5), Sri Lanka (-2.0), Jordan (-1.6), and Italy (-0.3). The best-performing regions ytd: EM Latin America (9.6), BRIC (7.0), and EM Asia (6.6). The worst-performing regions, albeit with gains: EMU (2.6), EMEA (3.3), EAFE (3.4), and EM Eastern Europe (3.7).

S&P 1500/500/400/600 Performance (*link*): All three indexes rose for a second straight week. MidCap rose 0.6%, beating the gains for SmallCap (0.4%) and LargeCap (0.1). Nineteen of the 33 sectors rose in the latest week, down from 21 rising a week earlier. LargeCap and MidCap ended the week less than 0.1% and 0.2%, respectively, below their record highs on January 25. SmallCap remained 1.9% below its respective record high in early December. Last week's best performers among sectors: SmallCap Health Care (2.9), LargeCap Health Care (2.4), MidCap Tech (2.0), and MidCap Health Care (1.3). MidCap Telecom (-3.3) was the worst sector performer last week, followed by LargeCap Telecom (-1.9), MidCap Energy (-1.5), and LargeCap Materials (-1.5). LargeCap and MidCap rose in January for a third month, posting gains of 1.8% and 1.6%, respectively. SmallCap (-0.4) fell in January for the first time in three months. Twenty-two of the 33 sectors advanced in January, down from 28 rising in December, which was the most since all 33 rose in March 2016. January's best performers: MidCap Telecom (6.2), MidCap Health Care (4.6), LargeCap Materials (4.6), and MidCap Materials (4.5). January's laggards: SmallCap Consumer Staples (-4.6), LargeCap Energy (-3.6), and LargeCap Telecom (-3.5). Twenty-four of the 33 sectors are positive ytd, with MidCap (2.8) edging out LargeCap (2.6) and both easily ahead of SmallCap (0.4). The biggest sector gainers ytd: MidCap Materials (6.0), MidCap Health Care (5.9), LargeCap Tech (5.9), LargeCap Materials (4.8), and MidCap Tech (4.8). The worst performers ytd: LargeCap Telecom (-5.0), SmallCap Consumer Staples (-3.6), SmallCap Consumer Discretionary (-3.2), and LargeCap Energy (-3.0).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 sectors rose last week, and five outperformed the S&P 500's 0.1% gain--compared to five sectors also rising a week earlier, when five also outperformed the S&P 500's 1.0% gain. Health Care was the best-performing sector for the week with a gain of 2.4%, followed by Consumer Staples (1.2%), Utilities (1.0), Real Estate (1.0), and Financials (0.2). Telecom was last week's worst performer, with a decline of 1.9%, followed by Materials (-1.5), Industrials (-1.3), Energy (-1.2), Consumer Discretionary (-0.7), and Tech (0.0). The S&P 500 rose 1.8% in January as eight sectors moved higher and four beat the index; that compares to nine sectors rising and five beating the S&P 500's 1.8% gain in December. The leading sectors in January: Materials (4.6), Tech (4.3), Consumer Discretionary (4.2), and Health Care (2.2). Energy was the biggest laggard in January with a drop of 3.6%, followed by Telecom (-3.5), Real Estate (-0.1), Financials (0.1), Utilities (1.2), Industrials (1.4), and Consumer Staples (1.5). Nine of the 11 sectors are higher so far in 2017, and four have outperformed the 2.6% gain for the S&P 500. The best performers in 2017 to date: Tech (5.9), Materials (4.8), Consumer Discretionary (3.8), and Health Care (3.6). The sectors underperforming the S&P 500: Telecom (-5.0), Energy (-3.0), Real Estate (0.5), Utilities (0.5), Financials (1.7), Industrials (1.7), and Consumer Staples (2.2).

Commodities Performance (*link*): Seventeen of the 24 commodities we follow rose last week, up from five rising a week earlier. The week's best performers: Nickel (7.9%), Sugar (3.8), Lean Hogs (2.9), and Gold (2.5). Last week's laggards: Natural Gas (-8.8), Coffee (-4.0), Feeder Cattle (-3.0), Copper (-2.2), and Soybeans (-2.1). January saw 13 of the 24 commodities climb, down from 11 rising in December and led by Lead (18.1), Zinc (11.2), Silver (9.7), Coffee (9.1), and Copper (8.3). January's laggards: Natural Gas (-16.3), Unleaded Gasoline (-7.2), Heating Oil (-5.6), and Brent Crude (-2.2). Sixteen of the 24 commodities are higher so far in 2017, compared to 18 and seven higher during 2016 and 2015, respectively. The best performers in 2017: Lead (15.9), Silver (9.3), Zinc (8.7), Sugar (8.2), Cotton (8.2), and Aluminum (8.1). This year's laggards to date: Natural Gas (-17.7), Unleaded Gasoline (-7.0), Heating Oil (-3.7), Cocoa (-2.5), and Feeder Cattle (-1.2).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 17/24 commodities, 1/9 global stock indexes, and 12/33 US stock indexes compared to 6/24, 7/9, and 19/33 rising a week earlier, respectively. Twenty commodities trade above their 200-dmas, up from 18 a week earlier as Nickel and Wheat turned positive w/w. Commodities' average spread rose to 4.9% from 4.5%. Zinc leads all commodities and all assets at 19.5% above its 200-dma, followed by Lead (17.8%), and Copper (14.2). Nickel (1.0) improved 7.2ppts w/w relative to its 200-dma for the week's best performance among all commodities and all assets. Commodities dominate the lowest-trading assets relative to 200-dmas, with these four commodities at the steepest discounts of all: Cocoa (-23.9), Feeder Cattle (-6.8), Gold (-3.6), and Silver (-2.6). Natural Gas (4.4) fell 11.0ppts w/w for the worst performance of all commodities and all assets. The global indexes trade an average of 6.3% above their 200-dmas, down from 7.5% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Brazil (12.3) leads the global indexes, followed by Germany (10.3) and Japan (9.6). Indonesia (3.3) was the group's best performer last week, albeit with a gain of just 0.7ppt. China (2.6) is trading at the lowest relative to its 200-dma of the global assets, but Japan (9.6) had the weakest performance of its country peers last week, as it fell 3.5 ppts. The US indexes trade at an average of 7.1% above their 200-dmas, with 29 sectors above, down from a 7.4% average a week earlier when 28 sectors were above. SmallCap Energy leads all US stock indexes at 19.3% above its 200-dma, followed by SmallCap Materials (18.0) and SmallCap Financials (16.9). SmallCap Health Care was last week's best performer among US stock indexes, as it improved 2.8ppts w/w to 4.3%. The following LargeCap sectors trade at the deepest discounts to their 200-dmas among the US indexes: Real Estate (-2.6), Telecom (-1.8), and Utilities (-0.6). MidCap Telecom (4.3) was last week's worst performer among US stock indexes, as it fell 3.6ppts.

S&P 500 Technical Indicators (*link*): The S&P 500 remained in a Golden Cross last week for a 41st week (after 17 weeks in a Death Cross) as the index's 50-day moving average (dma) improved relative to its 200-dma for a ninth straight week. Its 50-dma improved to a 16-week high of 4.3% above its 200-dma from 4.2% a week earlier and a six-month low of 2.0% in early December. That's down from a 30-month high of 5.4% in mid-September, but up from a 52-month low of -4.5% in early March. The S&P 500's 50-dma moved higher for a 12th week after six weekly declines, and the index closed the week above its 50-dma for a 12th week after nine weeks below. However, the S&P 500 weakened to 1.7% above its rising 50-dma from 2.0% a week earlier. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% on March 21 and a five-month low of -7.8% in January 2016. The S&P 500's bounce off its 200-dma in early November stalled last week as the index dropped to 6.1% above its rising 200-dma from 6.2%, and remains below the 17-week high of 6.9% above its rising 200-dma on December 13. That compares to a 20-month high of 7.1% in mid-August and a six-month low of -10.0% in mid-February. The 50-dma and 200-dma both rose together for a 12th week after falling for eight weeks.

S&P 500 Sectors Technical Indicators (*link*): The short-term picture weakened for the 11 S&P 500 sectors last week, and the long-term picture was mostly weaker too. Nine sectors still trade above their 50-day moving averages (dmas), unchanged from a week earlier as Energy and Telecom remained below. That's still a big turnaround from 13 weeks ago, when all 11 sectors traded below their 50-dmas for the first time since December 11, 2015. Seven of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier as Health Care moved above its 200-dma and Telecom fell below. The other three sectors still trading below their 200-dmas: Consumer Staples, Real Estate, and Utilities. Only seven sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas: Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. All 11 sectors have rising 50-dmas, unchanged from a week earlier. Six have rising 200-dmas, down from seven a week earlier, as Health Care turned down in the latest week. These six still have a rising 200-dma: Consumer Discretionary, Energy, Financials, Industrials, Materials, and Tech.

US ECONOMIC INDICATORS

Employment (*link*): January's employment gain was above expectations, while wage gains slowed.

January payrolls advanced at a four-month high of 227,000--47,000 above the expected 180,000 gain, though revisions showed 39,000 fewer jobs than previously reported, reflecting a slight upward revision to December payrolls (to 157,000 from 156,000) and a downward revision (164,000 from 204,000) to November's. Private payrolls advanced at a six-month high of 237,000 last month; December payrolls (165,000 from 144,000) were revised higher, while November's (178,000 from 198,000) were revised lower, for a net gain of 1,000. The breadth of job creation (percent of private industries increasing payrolls) for both the one- (58.8%) and the three-month (58.6) spans continued to hover around 60%. (Note: The Labor Department's figures included the annual benchmark update, and show the effect of these revisions on the underlying trend in nonfarm payroll employment was minor.)

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP) continued to reach new record highs last month, climbing for the fourth time in five months by 0.3% m/m and 2.1% over the period. Average hourly earnings, one of the components of our EIP, climbed 0.1% and 1.1% over the comparable periods, while aggregate weekly hours, the other component, advanced 0.2% and 1.0%. Compared to a year ago, the EIP increased 3.6% y/y, with wages up 2.5% (slowing from December's 2.8%) and aggregate hours 1.1% higher.

Employment by Industry (*link*): Hirings in retail trade, construction, finance, and professional & tech services industries led January gains. Retail trade establishments added 45,900 jobs last month, more than double the average monthly gain of 18,600 during 2016. Construction employment advanced 36,000 last month (the biggest gain in 10 months) and 105,000 the past five months. The financial activities sector added 32,000 jobs, double the average monthly gain of 15,800 last year, while employment in professional & tech services rose 23,000, in line with last year's monthly performance. Employment in both food services & drinking places and health care continued to trend up in January, with the former up 29,900 m/m and 286,000 y/y and the latter up 18,300 and 374,300 over the comparable periods. Employment in other major industries--including mining & logging, manufacturing, wholesale trade, transportation & warehousing, information services, and government--changed little over the month.

Unemployment (*link*): The unemployment rate ticked up for the second month to 4.8% after dropping unexpectedly in November from 4.8% to 4.6%--which was the lowest since August 2007. The civilian labor force increased 76,000 last month and 260,000 the past two months; those not in the labor force fell 736,000 after a three-month jump of 841,000. The participation rate climbed to a four-month high of 62.9%, remaining around cyclical lows. January's adult rate (4.4%) continued to move up from November's cyclical low of 4.2%, while the teenage rate (15.0) ticked up from December's cyclical low of 14.7%. The college-grad rate held at 2.5%; it was at a cyclical low of 2.3% in November. Those working part-time for economic reasons (a.k.a. "involuntary part-time workers") rose to 5.8 million (3.7% of the civilian labor force), after falling the prior four months by a total of 429,000 to a cyclical low of 5.6 million in December. The U6 rate--which includes marginally attached workers--rose from a cyclical low of 9.2% in December to 9.4% in January, while the sum of the underemployment and jobless rates climbed for the second month from its cyclical low of 8.1% in November to 8.5% last month.

Wages (*link*): Wage inflation--as measured by the average hourly earnings rate for all workers on private nonfarm payrolls (AHE)--edged up 0.1% in January after a revised 0.2% gain in December, which was half the initial estimate of 0.4%; the yearly rate slowed to 2.5% from 2.8% in December, which was the highest since June 2009. The wage rate for goods-producing industries (3.0% y/y) continued to bounce around 3.0%, while service-providing's slowed to 2.4% from 2.8%, which was the highest reading since June 2009. Within goods-producing, the natural resources (to 3.0% from 3.5%) and manufacturing (2.9 from 3.3) rates moved lower, while construction's (3.2 from 3.0) ticked higher. Within service-providing, the rate for wholesale trade (3.2) remained on a volatile uptrend, while rates for leisure & hospitality (4.2) and transportation & warehousing (2.0) were stalled at recent highs. Rates for utilities (3.0) and retail trade (1.6) remained on volatile downtrends, while rates for information services (3.9), professional & business services (2.4), and education & health services (1.9) continued to move sideways. The rate for financial activities plunged to 0.7%--the lowest since April 2009.

Productivity & Labor Costs (*link*): Last year productivity grew only 0.2%, the fifth straight year below 1.0% and the lowest since 2011. Output rose 1.7%, while hours worked advanced 1.5%; the former was the lowest growth rate in seven years, the latter in six years. Unit labor costs accelerated 2.6% last year, the highest since 2007, as hourly compensation rose 2.8%--which was in line with prior years. During the final quarter of 2016, productivity expanded 1.3%, as output (2.2%, saar) rose faster than hours worked (0.9). Last quarter's productivity gain was roughly a third of Q3's 3.5% pace, which followed declines the first two quarters of the year. Unit labor costs rose 1.7% (saar) last quarter, with hourly compensation 3.0% higher.

GLOBAL ECONOMIC INDICATORS

Eurozone Retail Sales (*link*): Eurozone retail sales in December fell for the second month after rebounding to a new record high in October. Sales sank 0.3% in December and 0.9% during the final two months of 2016, after jumping 1.5% in October. December's loss reflected declines in sales of automotive fuel (-1.1%) and food, drinks & tobacco (-0.4); sales of nonfood products (excluding fuel) were flat after a 0.8% loss and a 3.0% gain the prior two months. Among member states for which data are available, the largest declines were recorded in Ireland (-2.7), Portugal (-2.3), Austria (-1.4), and Estonia (-1.2), while largest gains were recorded by Luxembourg (+1.9) and France (+0.8). German sales fell 0.9% after a 1.7% drop in November.

Japan Consumer Confidence (*link*): Consumer confidence in January climbed to a 40-month high. The consumer confidence index advanced for the second month from 40.3 in November to 42.7 last month--the highest since September 2013. Over the two-month period, the biggest gain occurred in the employment component (to 45.9 from 42.1), followed by overall livelihood (41.5 from 39.1), willingness to buy durable goods (42.2 from 40.0), and income growth (41.1 from 40.0). The willingness-to-buy component was the only one to show a slight downtick for the month of January, from 42.4 to 42.2.

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