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Dream Jobs

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News reached us last weekend of an incredible message-in-the-bottle story. Turns out a woman strolling a beach in Western Australia found a bottle that, it was later discovered, had been tossed overboard from a German merchant ship in 1886.

Further research by a museum curator revealed that a Captain O. Dieckmann of the *Paula* had recorded the event in his logbook on June 12 of that year. When the bottle was opened, a note rolled with twine fell out. The note read "Is cov-lite still around?"

Actually that last bit is pure fantasy. What's not fantasy is how the US economy keeps motoring along. Latest evidence was Friday's job report. In it was good news for everyone. Not only did it show 313,000 new jobs for the month of February, but it came at very little cost in terms of wages. The latter rose only 2.6% from a year ago.

Public equities loved the news, as the Dow jumped 440 points and the S&P was up 47.60. Bond investors applauded as well; Treasury yields were higher – up to almost 2.9% for the ten-year. Analysts said the modest wage growth signaled inflation was still mostly tamed, leading many to suggest the Fed would be cautious with rate hikes.

What's the message to credit investors? Wage increases are generally viewed by economists as important pressure points on inflation, since employers may resort to raising prices on their products or services to pay for those increases. Despite years of improved employment figures, wages have not kept pace.

The fact that both equities and fixed income reacted positively to job data revealed the delicate nature of where we are in the cycle. Too much good news on growth spooks bond holders who fear higher rates will erode their holdings' value. Stocks fare poorly if inflation worries lead to the Fed clamping down with accelerated hikes.

For another perspective on job creation statistics, we turned to the National Center for the Middle Market. This joint venture among Ohio State, SunTrust and others conducts a quarterly survey of 1000 C-suite executives of US middle market companies. Given that businesses with revenues between $5 million and $1 billion represent one-third of private sector GDP and added 2.2 million jobs through the Great Recession, this cohort is a good measure of US economic health overall.

For 2017 these companies reported job growth of 5.2%. This was slower than the previous quarter's LTM pace (6.4%), but well above job additions (per ADP) of 2.6% among large corporates. Revenue growth among midcap businesses also outperformed their S&P 500 counterparts, 7.6% vs 6.9%.

Significantly almost half of the survey respondents indicated they expect to raise prices sometime during 2018 – the highest level since the Center was founded in 2011.

That trend could prove predictive of inflationary pressures across the broader economy. While monitoring NCMM surveys may not be as dramatic as 132-year old notes in bottles, at least market observers won't have to patrol faraway beaches to get the message.