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Instant Analysis of Today's Employment Report for April

Job Creation In-Line with Expectations in April; +223K vs. Consensus Exp. +228K
Unemployment Rate Drops one tenth to 5.4%
March Job Numbers Revised Down a Net -41K to just +85K
Avg. Hourly Earnings up a Modest 0.1% (+2.2% y-o-y) Labor Force Participation Improves
Job Growth in All Major Sectors except Mining (-15K)
Business Services (+62K), Ed & Health (+61K), Leisure & Hospitality (+17K)
Trade (+24K), Manufacturing (+1K), and Construction (+45K)
April's Employment Report Keeps Fed on September 2015 Rate Hike Course
Market Reaction to Report; USD Rises; S&P 500 +0.9%; 10-Yr Treasury Yield -2 bps 2.16%

We saw a solid bounce-back in U.S. job creation in April to +223K which fits nicely with the transitory Q1 slowdown thesis. This number is nearly in-line with the consensus that was forecasting a bounce to +228K on the month. The net non-farm payroll change number was right in the temperate zone, not too hot that it will force the Fed's hand in June, and not too cold that it pushes the first rate hike into 2016. Highlighting the weakness in Q1, March payrolls were revised down to 85K jobs from the initially reported and already weak +126K. The U.S. labor market showed it's resilience in April despite weakness from abroad and large swings in the dollar and global oil prices. This report returns the U.S. labor market to its +200K a month net non-farm job trend and underlines the job momentum inherent today.

The U.S. unemployment rate improved one-tenth of a percent in April to 5.4 percent, keeping the economy on track for a 5.0 percent unemployment rate before year-end. This should give the FOMC some more courage to justify a rate hike by September. The labor force participation rate improved to 62.8% from 62.7% in March. The employment ratio held at 59.3%, and the details of the household employment survey were just as encouraging- household employment increased +192K in April.

Wage gains remain subdued. Average hourly earnings released with this report increased a less than expected +0.1% in April, and March's growth was revised down a tenth to +0.2%. The year-on-year growth rate for average hourly earnings still improved to 2.2%, however. While this data does not show any real sign of wage pressure emerging, other reports like the Employment Cost Index and Unit Labor Costs are painting a different story. With the unemployment rate approaching full-employment levels it will only be a matter of time before wages start to rise at a somewhat swifter pace.

By sector, we saw solid job growth for all major sectors excluding mining, which lost -15K jobs. Mining jobs are falling under the weight of declining oil rig counts and lower oil prices. Business services led the way adding a net (+62K) jobs, education and health (+61K), construction (+45K), trade (+24K), leisure and hospitality (+17K), government (+10K), finance (+9K), manufacturing (+1K). The breadth of these job gains across sectors suggest a sustainable and vibrant labor market recovery remained in place as the second quarter of 2015 got underway.

Bottom-line, we received a solid and respectable employment report this month that demonstrates the resilience and breadth of the current labor market recovery. The report should further ease fears at the Fed that the strong US Dollar and sharp drop in oil prices are permanently disfiguring the U.S. economic outlook. The April jobs report keeps the FOMC on course for a September 2015 liftoff date for the Fed funds target rate, and keeps June and July on the table (though we still see this as a long-long shot). The report also fits in well with our 3.0 percent growth outlook for the U.S. economy in the second half of this year. If there was any disappointment it was with the continued weakness in average hourly

earnings growth. Moreover, the weak job growth in March, the loss of energy sector jobs in April and weak manufacturing job creation means the Fed will want to see a few more payroll reports similar to this before they actually pull the trigger on rates. The market's initial reaction was positive. S&P 500 futures indicated opening up +0.9%, the 10-year Treasury yields were trading about 2 basis points lower to 2.16 percent, and the US dollar was strengthening against most major currencies.