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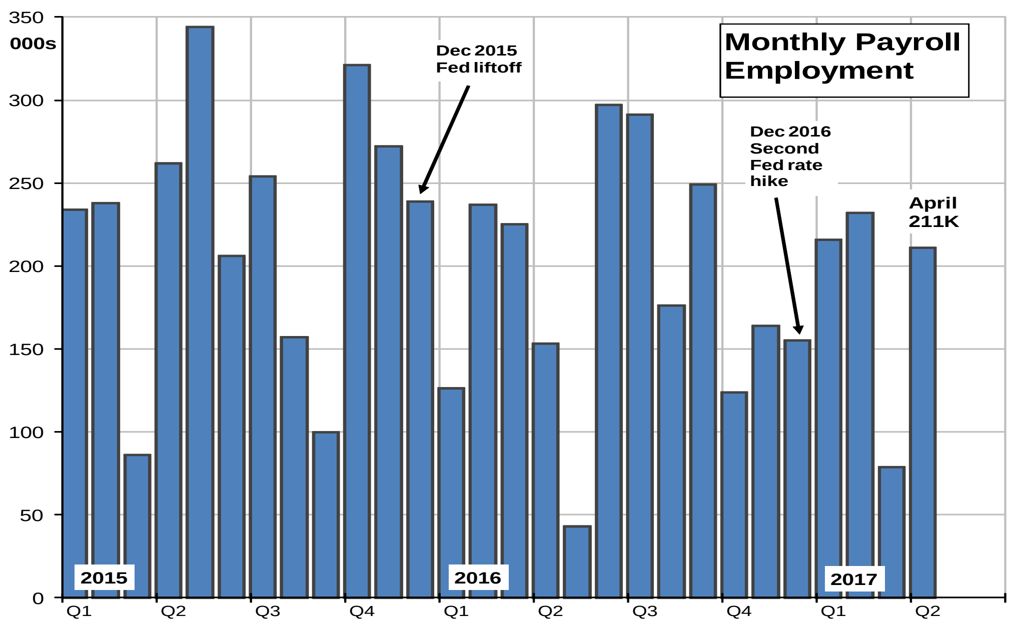
5 MAY 2017

RED-HOT LABOR MARKET, BUT COMPANIES AREN'T GIVING IT AWAY

The labor market bounces back this month giving credence to the Fed's statement this week that it regarded the economy's recent slowdown as just transitory. Payroll jobs rose 211K in April after the downward revision in March to 79K, so they got that right, the payroll jobs slowdown in March was indeed temporary. Most startling is the drop in the unemployment rate to 4.4% which is also the lowest level during the Greenspan housing bubble years when the economy was strong and workers were fully employed.



Hard to see how payroll jobs could be the trigger on Fed rate hikes yea or nay given the pattern here. Before second Fed hike last December, payroll jobs were 178K Nov, 142K Oct, 208K Sep and they went. (Data since revised.)

Speaking of full employment, this is the time when labor is in short supply and firms have to offer new employees more compensation to get them on board. That's the economic theory. Wages or average hourly earnings may have risen 0.3% in April, faster than the downward revision in March to an increase now of just 0.1%, but wages over the last year are still around samo-samo 2.5%. If the labor market is heating up, employees are sure not seeing a bump up in their paychecks. <u>The only thing that worries us a little is the lack of oomph if you will behind that 211K rebound today.</u> And the rebound characterization is not quite right as it would have taken closer to 300K to completely make up for the relatively few jobs (79K) created in March. The 211K result was a little uneven. Construction and manufacturing jobs growth was tepid, with gains of 5K and 6K, respectively. Retail jobs did not come back as much after a big 27K drop in March as new retail jobs in April rose just 6K. Maybe it's right that bricks and mortar retailing establishments are losing ground to shoppers sitting on the couch with their iPhones. Also the 211K jobs were boosted by stronger hiring this month that we would call "transitory" one-offs with government jobs up 17K and financial jobs up 19K; both categories probably will not hire as many workers in next month's report.

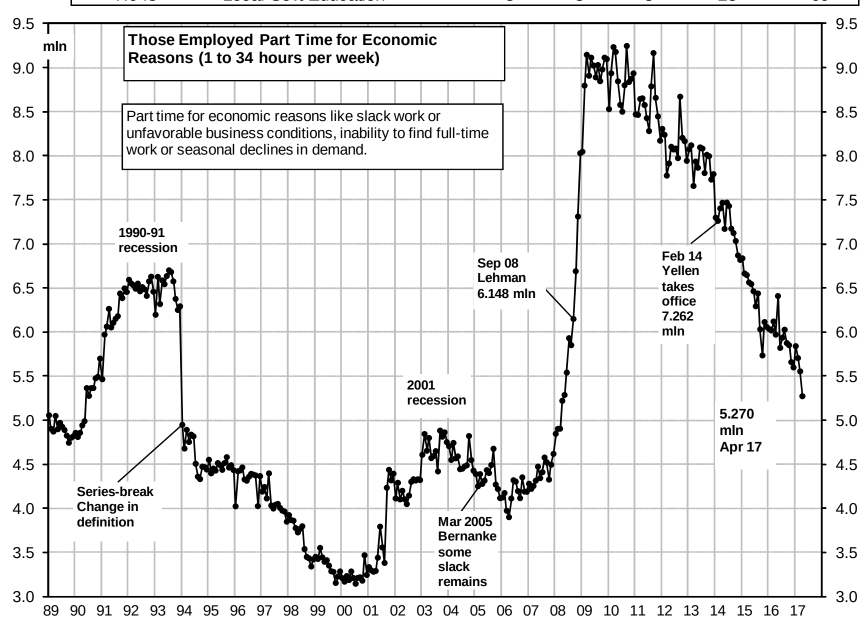
In conclusion, the labor market rebounded moderately in April from a weaker reading in March. The surprise one-tenth drop in the unemployment rate to 4.4% is another turn tighter of the screw for the jobs markets. If you can't find a job in this market, notice we did not say good job, if you can't find a job maybe tweak your resume a little because there is plenty of work out there. You have to go back to May 2001 to find the unemployment rate lower and better than it is today.

Today's report was better than expected and has to be a relief to Fed officials that probably were less sure the slowdown in March was just temporary, despite the bold prognostication released in the statement after Wednesday's Fed meeting. The fundamentals underpinning continued growth remain solid they said; let's see if consumer spending and GDP rebound as well.

	Apr	Mar	Feb	Jan	Dec	Nov
Payroll jobs (000s)	211	79	232	216	155	164
Unemployment rate %	4.4	4.5	4.7	4.8	4.7	4.6
Unemployment (3 decimal)	4.404	4.496	4.703	4.780	4.716	4.646
Average hourly earnings	$26.19	$26.12	$26.10	$26.02	$25.98	$25.91
MTM % Chg	0.3	0.1	0.3	0.2	0.3	0.0
YOY % Chg	2.5	2.6	2.8	2.6	2.9	2.7

Payroll jobs in year eight following the recession

Dec. 2016 Totals millions		Apr 17	Mar 17	Feb 17	4 months Dec 16 to Apr 17	12 months Dec 15 to Dec 16
145.325	Nonfarm Payroll Employment	211	79	232	738	2240
123.026	Total Private (ex-Govt)	194	77	222	697	2039
19.794	Goods-producing	21	23	88	183	64
0.617	Mining	9	11	11	36	-75
12.343	Manufacturing	6	13	22	53	-16
0.942	Motor Vehicles & parts	3	2	-6	4	17
6.783	Construction	5	1	54	94	155
103.232	Private Service-providing	173	54	134	514	1975
27.374	**Trade, transportation, utilities**	19	-20	-11	16	331
15.881	Retail stores	6	-27	-29	-15	203
3.180	General Merchandise	8	-32	-16	-53	37
3.097	Food & Beverage stores	-1	1	-2	-1	37
5.048	Transportation/warehousing	4	7	8	5	92
1.465	Truck transport	0	5	9	11	10
0.668	Couriers/messengers	3	-1	-1	-13	31
0.943	Warehousing and storage	3	0	-2	6	63
0.557	Utilities	1	0	0	-1	0
2.762	**Information**	-7	-6	-6	-27	0
8.364	**Financial**	19	4	5	58	176
2.605	Insurance	14	-1	4	24	46
2.169	Real Estate	3	1	3	19	59
1.311	Commercial Banking	0	1	0	4	17
0.933	Securities/investments	1	1	0	4	18
20.416	**Professional/business**	39	57	35	190	534
2.962	Temp help services	6	13	10	44	32
2.259	Management of companies	1	0	3	10	35
1.427	Architectural/engineering	2	7	4	21	27
2.032	Computer systems/services	3	3	4	18	87
1.126	Legal services	1	-1	-2	-2	5
1.000	Accounting/bookkeeping	5	2	0	3	32
22.871	**Education and health**	41	10	68	136	553
5.077	Hospitals	4	7	6	20	119
3.604	Educational services	4	-6	32	22	85
15.744	**Leisure and hospitality**	55	9	33	112	331
1.950	Hotel/motels	8	0	5	10	11
11.549	Eating & drinking places	26	26	21	91	276
22.299	Government	17	2	10	41	201
2.200	Federal ex-Post Office	-1	-3	-1	-5	30
5.085	State government	0	1	-2	9	-4
2.414	State Govt Education	3	0	-3	6	3
14.395	Local government	23	4	14	45	160
7.945	Local Govt Education	8	8	3	28	69



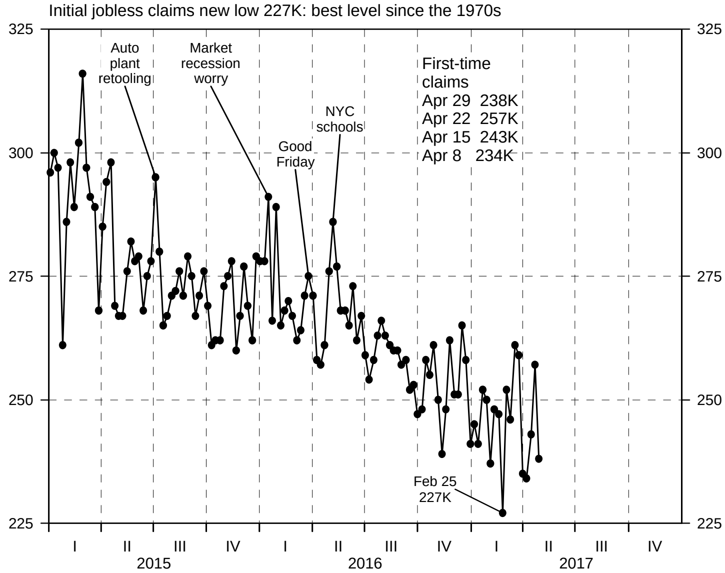
One of Yellen's favorite reasons for moving interest rates up gradually is this series on "involuntary part-time employment" which is tumbling and the argument against higher rates is crumbling.

JOBLESS CLAIMS—BEST OF BEST TIMES RIGHT NOW FOR LABOR MARKET

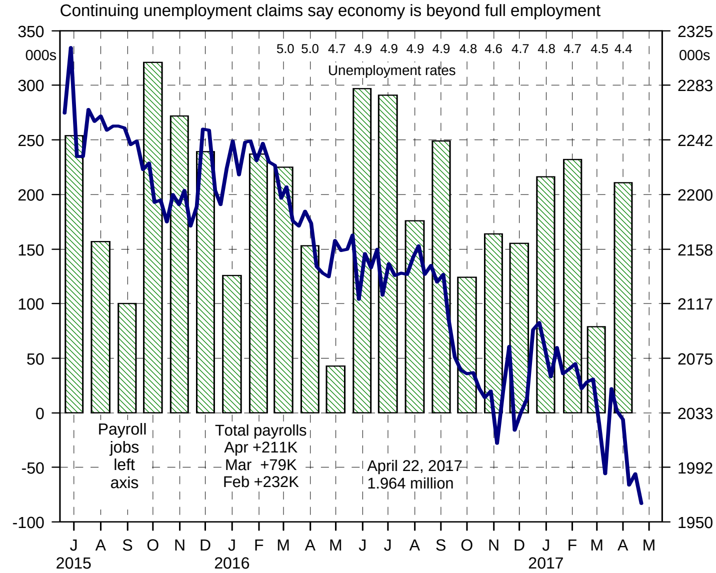
Unemployment claims have been volatile the last two months and fell back sharply by 19K to 238K in the April 29 week. The labor market continues to tighten up with the new low in the official unemployment rate to 4.4% on Friday and the number of people receiving unemployment benefits are also at a new low for this "recovery." More Fed officials are saying the economy is at full employment even though wages are not seeing much pick up. The inflation part of the dual mandate fell back in Monday's report: March core PCE is 1.6% YOY and was 1.8% YOY in February.

President takes Office		Unemployment
Clinton	Jan 1993	7.3%
Bush	Jan 2001	4.2%
Obama	Jan 2009	7.8%

Initial jobless claims new low 227K: best level since the 1970s



Continuing unemployment claims say economy is beyond full employment

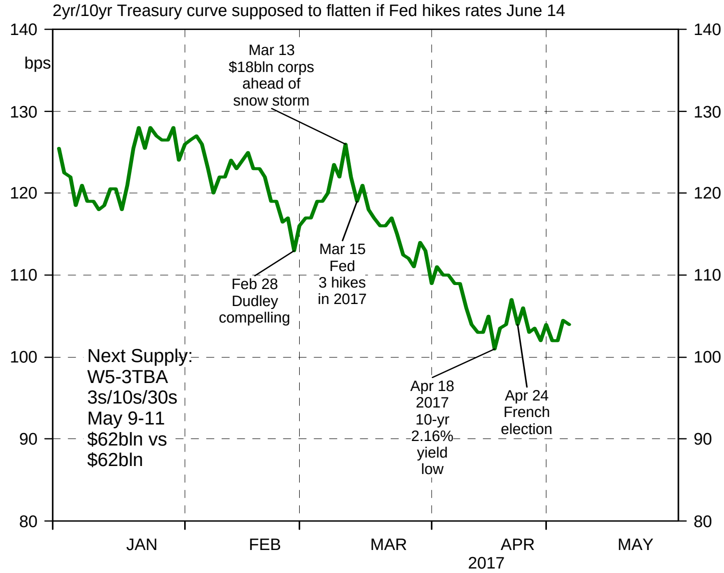


TREASURY CURVE WAS STEEPER: TRUMP FISCAL STIMULUS MUMBO JUMBO

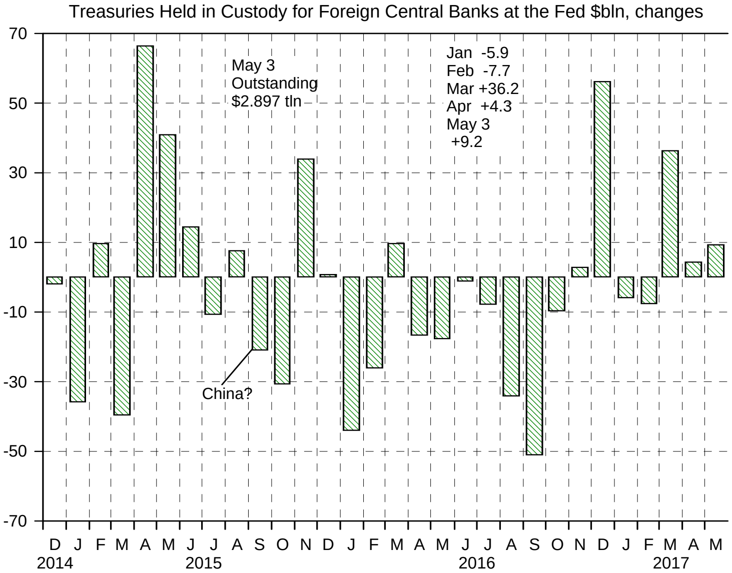
The yield curve between 2-yrs and 10-yrs was 104 bps on Friday versus 102 bps last week. 10-yr yields a little higher this week at 2.35% on Friday versus 2.28% last Friday, April 28. Yields moved up 4 bps on Wednesday Fed meeting news where the committee thought the slowdown was just temporary. Not much changed on the 211K jobs report Friday. The trading range was basically one-quarter point which has got to be a new record in this era of reduced volatility.

	31-Mar 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
30-Yr Bond	3.03	3.10	3.20	3.40	3.60	3.70	3.80
10-Yr Note	2.40	2.50	2.70	3.00	3.20	3.40	3.50
5-Yr Note	1.93	2.10	2.40	2.70	3.00	3.20	3.30
2-Yr Note	1.25	1.50	1.75	2.00	2.25	2.50	2.75
3-month Libor	1.15	1.50	1.70	1.95	2.20	2.45	2.70
Federal Fund Rate	1.00	1.25	1.50	1.75	2.00	2.25	2.50
2s/10s spread	115	100	95	100	95	90	75

2yr/10yr Treasury curve supposed to flatten if Fed hikes rates June 14



Treasuries Held in Custody for Foreign Central Banks at the Fed $bln, changes



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FEDERAL RESERVE POLICY

The Fed met May 2-3 to consider its monetary policy. In the second paragraph of Wednesday's press statement they inserted a line saying they thought the slowdown in growth in the first quarter [0.7% GDP] was likely to be transitory. The market took this as a sign that a June rate hike was still on the table. Just to be clear (crystal), Fed funds futures (the July contract) odds of a 25 bps rate hike on June 14 moved from 62% (1.065%) on May 2 to 66% (1.075%) on May 3 after the Fed meeting news. After the 211K jobs data today, the odds lifted higher from 68% Thursday to 74% at Friday's close.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	3-May	26-Apr	19-Apr	12-Apr	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2464.792	2464.730	2464.638	2464.546	479.782
Federal agency debt securities	11.829	11.829	11.829	13.329	0.000
Mortgage-backed securities	1769.015	1769.013	1776.917	1781.091	0.000
Primary credit (Discount Window)	0.024	0.011	0.043	0.001	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.709	1.709	1.708	1.708	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	0.000
Central bank liquidity swaps	0.035	0.080	0.035	0.045	62.000
Federal Reserve Assets	4517.6	4516.5	4525.6	4530.7	961.7
3-month Libor %	1.17	1.17	1.16	1.16	2.82
Factors draining reserves					
Currency in circulation	1546.200	1542.724	1541.322	1540.933	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	186.667	122.323	116.567	105.528	0.000
Reserve Balances (Net Liquidity)	2200.821	2200.670	2256.670	2367.767	24.964
Treasuries within 15 days	20.483	14.058	14.058	0.460	14.955
Treasuries 16 to 90 days	37.862	46.551	46.550	59.336	31.549
Treasuries 91 days to 1 year	223.203	200.650	200.648	201.692	69.272
Treasuries over 1-yr to 5 years	1170.570	1194.564	1194.549	1194.562	170.807
Treasuries over 5-yrs to 10 years	384.939	381.211	381.191	381.007	91.863
Treasuries over 10-years	627.733	627.696	627.642	627.489	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

The market took the 211K jobs report as a sign the slowdown was indeed transitory even though payroll employment doesn't have to match the trend in GDP growth necessarily. It was interesting that the Fed statement said "job gains were solid, on average, in recent months" ignoring the one-month slowdown in March of 98K (revised to 79K in today's report). This suggests to us that they are emphasizing the drop of the unemployment rate as the key indicator of the labor market not payroll jobs that all know and love. What can we say? The Fed statement was Wednesday and now it is Friday. The 4.4% unemployment rate reported today for April is the same as the very best level reached during the good 'ol Greenspan housing bubble years. What on earth is the Fed funds policy rate doing at 1%? It was 5.25% when the unemployment rate was 4.4% in 2006. We guess the Savers of the World don't have a Union. No complaints heard. The Fed saying they are delaying needed policy adjustments because they are waiting for inflation to recover just doesn't cut it. It doesn't make sense. Let's see what the Trump Fed does. Roll the dice.

Fed statement Paragraph 1 and 2

Information received since the Federal Open Market Committee met in March indicates that the labor market has continued to strengthen even as growth in economic activity slowed. Job gains were solid, on average, in recent months, and the unemployment rate declined. Household spending rose only modestly, but the fundamentals underpinning the continued growth of consumption remained solid. Business fixed investment firmed. Inflation measured on a 12-month basis recently has been running close to the Committee's 2 percent longer-run objective. Excluding energy and food, consumer prices declined in March and inflation continued to run somewhat below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee views the slowing in growth during the first quarter as likely to be transitory and continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2 percent over the medium term. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

So You Want to be a Fed Watcher: Dog Bark at Moon News headlines on Friday afternoon

Rosengren: R-star unobservable, large standard error

Williams: neutral, real interest rate is about 0.25%

Bullard: start to trim balance sheet in second half

Evans: Extremely important Fed hits inflation target

Williams: Still view Fed may hike rates 3-4 times in 2017

Bullard finds puzzling QE's lack of effect on inflation

Williams: Fed should consider price-level targeting

Rosengren: QE is one reason US is at or a bit below full employment

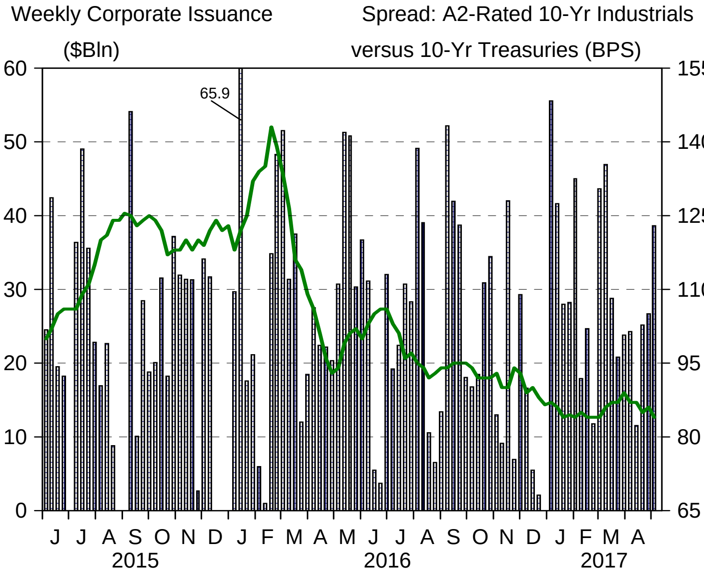
Bullard: if Fed hikes once or twice it's not the end of the world

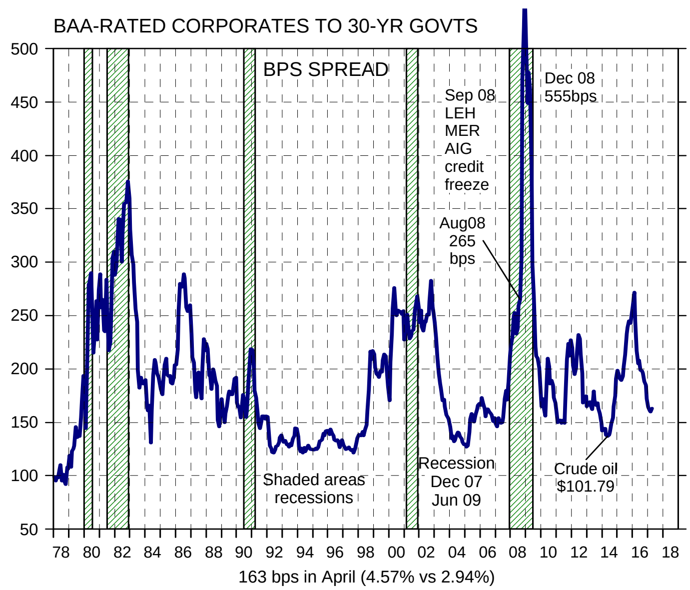
Yellen says more women in workforce would help boost growth

Fischer: Coherence need pushes Fed towards consensus

CORPORATE BONDS: APPLE, SHERWIN-WILLIAMS, UNITED TECHNOLOGIES

Corporate offerings were $38.6 billion in the May 5 week versus $26.7 billion in the April 28 week. On Thursday, Eli Lilly and Company sold $2.25 billion 5s/10s/30s. It priced $750 million 3.1% 10-yrs (m-w +12.5bp) at 75 bps (AA-/A2). The pharmaceutical company will use the proceeds for general corporate purposes and to repay debt coming due in 2018 and 2019. Corporate bonds (10-yr Industrials rated A2) were 84 bps above 10-yr Treasuries on Friday versus 86 bps last Friday.





TREASURY MARKET OUTLOOK

EXPECTED 10-YR 2-3 WEEK TRADING RANGE 2.00% to 2.75%

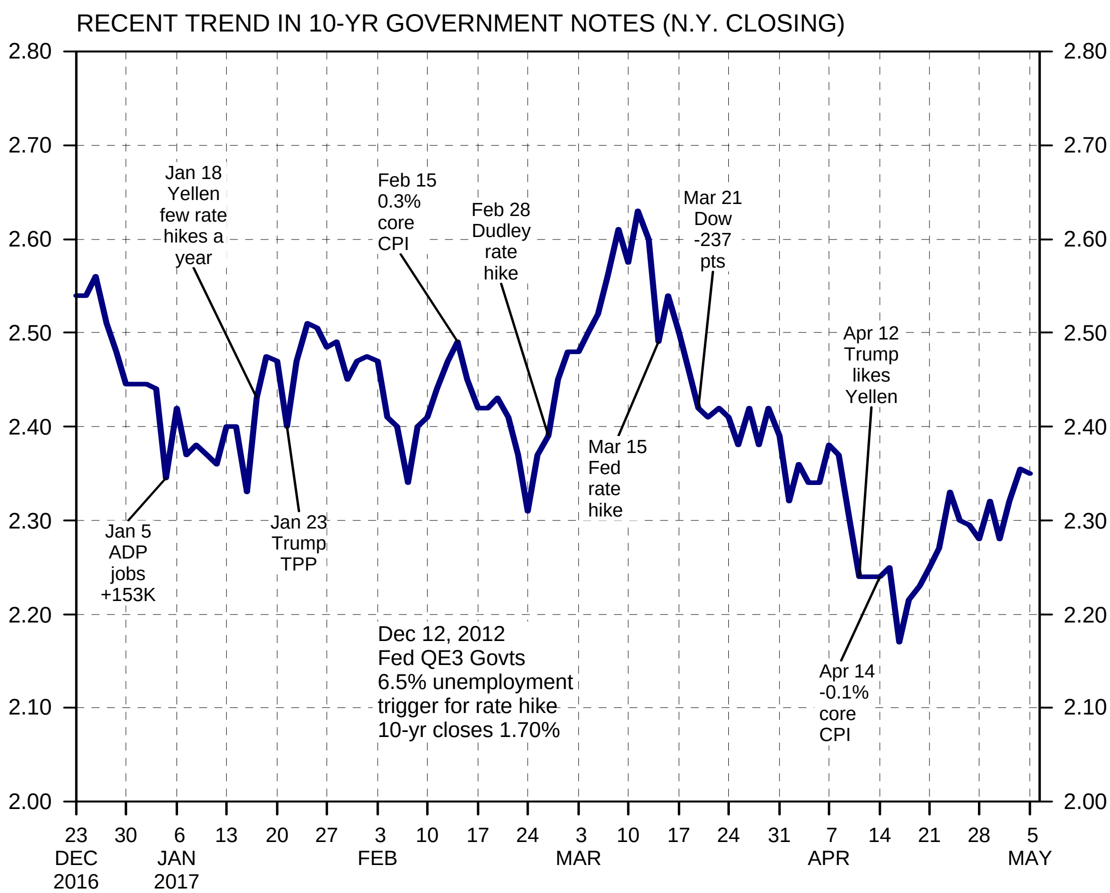
Week's 10-YR Range

HIGH 99-24+ 2.28%

Wednesday, May 3, ADP jobs only 177K

LOW 98-28+ 2.38%

Friday, May 5, 211K real payroll jobs report, first reaction



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