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Rocky Start

April 4, 2016—Equity indices tumbled in January, amid uncertainty about global economic growth, oil prices and developments in China. Oil prices bottomed in February, and stocks slowly struggled back to where they'd started the year. At the end of the first quarter, the S&P 500 was up 13% off its lows, up 0.8% on the quarter. The Dow Jones Industrial Average was ahead 1.5%, while the NASDAQ was down 2.7%. The outlook for oil prices remains uncertain, as OPEC members appeared to be near an agreement on curbing output as the quarter ended. The possibility of Iranian oil entering the world market later this year adds still more to the supply side.

The standout performer in the first quarter was the price of gold, up 16.5%. Two forces generally drive the price of gold, which otherwise has relatively little intrinsic value. The first is inflation or inflationary expectations, of which there is presently not much evidence. The second is uncertainty—economic, political, military, or what have you. Of that there has been an abundance. Some observers believe that gold is on the verge of a correction, while others point out that the price remains about 35% below the peak of nearly $1,900 an ounce, set in 2011.

Interest rates

The Fed finally raised short-term interest rates by a quarter point in December. At that time, additional increases were anticipated through 2016, perhaps as much as a full percentage point. By March the tune had changed, as the economy evidently needs more time to absorb more interest rate increases. In an address to the Economic Club of New York, Federal Reserve Chairwoman Janet Yellen acknowledged that the economic performance this year was "somewhat mixed," so the Fed will be cautious about future increases. Two more quarter-point bumps are expected this year, the first perhaps by June.

The Fed believes that a stable economy will include 2% price inflation, and that is their target. The target has not been hit; through the 12 months ended in January inflation was 1.7%, and it has slowed since then. Measures of inflationary expectations similarly show little sign of reaching the 2% threshold. Said Yellen: "Taken together, these results suggest that my baseline assumption of stable expectations is still justified. Nevertheless, the decline in some indicators has heightened the risk that this judgment could be wrong. If so, the return to 2% inflation could take longer than expected and might require a more accommodative stance of monetary policy than would otherwise be appropriate."

Employment

The economy added 215,000 jobs in March, a strong showing. Despite that, the unemployment rate rose to 5.0%. But that fact is actually good news, because the increase in unemployment was due to an increase in the labor force participation rate, the percentage of working-age people who are in the work force. After bottoming at 62.4% in September 2015, which was the lowest since the Carter administration, the rate has been edging up, reaching 63%. Not robust improvement, but moving in the right direction again.

Unpacking the employment numbers, manufacturing jobs were down 29,000, and oil and gas jobs fell 19,200. Mining jobs were down 12,000, with total industry job losses a staggering 185,000 since September 2014. The monthly losses were offset by increases in retail trade (48,000), construction (37,000), health care (37,000) and food services (25,000). Average hourly earnings for private nonfarm payrolls were up seven cents, to $25.43. The average workweek was unchanged, at 34.4 hours.

(April 2016)