Up and Down Wall Street

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More Jobs, Less Facebook

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As Facebook users go back to work, they'll have less time to update their pages and peer at those of others. On the plus side, the company's $5 billion IPO has monetary policy at its back.

Facebook. Like the moon darkening the sun during an eclipse, news of the social-networking site's pending initial-public offering seemed to obscure much of what else was happening in the world last week, at least momentarily.

For instance, Mitt Romney's double-digit victory margin in Florida's Republican presidential primary was pushed off center-stage after Facebook filed its S-1 registration form with the Securities and Exchange Commission. Which was a lucky thing for the former Massachusetts governor, who is running remarkably well in spite of his recurring habit of sticking his foot in his mouth. Stating that he isn't concerned about the plight of the very poor because they have a safety net came off as almost Dickensian, just short of Scrooge's solution for the impoverished of Victorian England: "Are there no prisons? Are there no workhouses?"

Romney's insensitivity proved no obstacle to endorsement by the equally circumspect Donald Trump. Earlier, there seemed to be some uncertainty about which of the GOP contenders would get the support of the real-estate mogul, reality-television star and potential candidate in his own right. The scuttlebutt had been that Trump would back Newt Gingrich, but the former House Speaker won the coin toss and it went to Romney. As with much of the campaign, Texas Congressman Ron Paul provided the one bit of fresh air about Trump's endorsement: "Please explain to us why anyone would care."

But it was President Obama who was crowing Friday, after the Labor Department reported that 243,000 folks were added to nonfarm payrolls in January, a cool hundred grand more than economists had estimated, while the politically sensitive unemployment rate dropped an unexpected 0.2 percentage point, to 8.3%, the lowest in three years and down from over 9% just six months ago. Moreover, the details that can obscure or exaggerate the true nature of the jobs report were pretty much on the plus side as well. The preceding two months' payroll tallies were revised up, and the jobless rate reflected an expanded labor force, rather than just dropouts. Finally, the so-called underemployment rate (U6 to fans of the data), which takes in folks who have quit looking for work or are working part-time but really want or need a full-time gig, edged down 0.1 percentage points last month, to 15.1%, and from around 16% for much of last year.

Perusing the payrolls data (which, of course, come from a survey of businesses, separate from the household survey from which the jobless rate is derived), our friends at the Liscio Report, Doug Henwood and Philippa Dunne, noted that payrolls posted their biggest rise since last April and their third-best monthly gain since 2006. Goods-producing industries had solid gains, with manufacturing up by 50,000, mining and logging up 10,000 and construction up 21,000, although the mild winter no doubt boosted the seasonally adjusted addition to the building trades. Meanwhile, finance shed 5,000 workers, information workers fell 13,000, and government was off another 14,000.

About the only bad news in the employment report was for Facebook. It can't be a coincidence that its roster of users swelled to over 800 million worldwide during the worst economic downturn since the Great Depression, as joblessness swelled and with it, free time to spend on Facebook. And in the U.S., jobs are growing in manufacturing and construction, where few people sit in front of PCs, while shrinking in information, finance and government, where most everybody does.

So, as Facebook users go back to work, they will have less time to update their pages and peer at those of others. And fewer office jobs also means less time goofing off at work looking at Facebook (which is broken up by watching videos on You Tube.) And folks who are employed and have a few bucks in their pockets might actually get out and have what used to be called a social life, as opposed to social networking. "Friend" might once again be a noun rather than a verb. It could happen.

In a more serious vein, the mix of jobs points to an economy in transition, from consumption to production and savings, observes Steve Blitz, senior economist at ITG Investment Research. Increased domestic production, either for exports or as substitutes for imports, can translate into sustained 2% to 3% growth in gross domestic product—even with lackluster spending. And as soon as consumers see a real uptick in income, as they did in December, they boost their savings, not spending, he adds. The next time you hear or read some report quoting the old saw "consumer spending accounts for two-thirds of the economy," realize that consumption no longer is driving the U.S. economy as it did for decades.

Indeed, writes David P. Goldman, the former global head of fixed-income research at Bank of America and now principal of Macrostrategy.com, the outperformance of consumer discretionary stocks has been anomalous given the declining wealth of more affluent Americans, the other group that Romney professes not to worry about. The top 5% of earners account for 37% of outlays, and they had a lousy 2011 with the flat stock market and the sharp drop in high-end residential real estate (-20% for $1 million-plus homes last year).

"Never on record has the American consumer sustained such a shock to wealth. And never have so many Americans approached retirement with so little savings. The most affluent consumers also tend to be those approaching retirement, and the possibility of a jump in the savings rate continues to overshadow the outlook for consumer demand," Goldman writes in his Macro Strategist letter.

With Americans producing more and spending relatively less, we're more vulnerable to what's happening abroad. China is the big wild card, Blitz says, especially as consumers in the U.S. and elsewhere cut back. China isn't so much an importer of U.S. goods, he points out, as an importer from countries to which the U.S. exports, such as Canada. As for Europe, he's less worried about its direct impact on the U.S. economy than its effect on the financial system.

On that score, David A. Levy, chairman of the Jerome Levy Forecasting Center, says Europe remains vulnerable, given the continued balance-sheet contraction there. The European Union could squeak by with a mild recession if governments there abandon meaningful deficit-cutting; bank supervisors back off from enforcement of tighter capital standards and allow essentially insolvent banks to continue to function; the European Central Bank continues to provide ample liquidity to the European banks through its Long-Term Refinancing Operations; and the financial markets accept all of this with equanimity. Clearly, risks are that one or more fail to happen.

AS IF DEMAND WEREN'T ALREADY expected to be strong for Facebook's $5 billion IPO, the deal, which is scheduled for spring, will have monetary policy at its back.

Friday's Daily Economic Report from International Strategy & Investment, headed by Ed Hyman and Nancy Lazar, points out the M2 U.S. money supply is in a strong uptrend. "And there's plenty of money (up almost $1 trillion over the past year) for a $5 billion Facebook IPO."

History is repeating itself on that score. As in the dot-com IPO boom at the end of the last century, monetary policy played a key role. Then, the Nasdaq rose in sync with the Fed's liquidity expansion, fueled in part because of concerns about Y2K (remember that?), and fell as the central bank drained that liquidity.

Monetary easing has gone global, especially since the ECB's €489 billion (about $600 billion in December) LTRO, which provided three-year money at 1% to European banks. And there's talk in the markets the next LTRO could be boosted to €1 trillion (as per David Levy's suggestion above) to continue the easing of tensions in the European sovereign-debt markets. Italy's benchmark 10-year bond yield has pulled back to comfortably under 6% after reaching the 7% tipping point late last year.

The LTRO was part of what Morgan Stanley's international economist Joachim Fels has dubbed "The Great Monetary Easing Part Two." In addition to the ECB, the Fed declared its intention to remain easy by holding the federal-funds rate target near zero until late 2014, while the Bank of England has continued its policy of quantitative easing. In the emerging markets, the central banks of Israel and Thailand recently cut interest rates while the Reserve Bank of India lowered bank reserve requirements.

All this monetary easing has gone a long way to boost lower risk premiums, as seen in the options markets. The CBOE Volatility Index fell to 17, less than half the level of last November. The lessening of the fear gauge made for a strong January for the stock market. The Wilshire

5000, the broadest measure of the U.S. market, gained 4.92%, adding $750 billion to investors' wealth, the best January since 1997, when it rose 5.24%.

Since the Fed inaugurated its zero-interest-rate policy in December 2008, the financial markets have benefited and manufacturing activity has picked up, but employment has yet to recover, ISI notes. The Standard & Poor's 500 is up 46.5%, while junk-bond yields have plunged to 7.49% from 22.21% at the depths of the financial crisis. Fixed-rate mortgage rates are down to 3.85% from 5.53% while the manufacturing purchasing managers index is up to 54.1% from 33.1%. "However, there has been some downside, eg, oil prices have more than doubled, and employment is still 1 million lower," at 142 million, write the folks at ISI. In Facebook terms, that is something not to Like.

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