Weekly Commentary

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20-20 on 25

In hindsight, the Federal Reserve is looking pretty smart today. The 25 basis-point hike rate hike it announced after Wednesday's Federal Open Market Committee meeting had been expected, forecasted, anticipated…you name it. But there was still plenty of concern it would be one hike too many. As Chair Jerome Powell reiterated in the post-meeting press conference Wednesday—almost sounding astonished to hear himself say it—the Fed has raised rates by 500 basis points in little over a year. By now, he, his colleagues and most of the financial world thought the labor market would have rolled over. After all, the tightening cycle recently "broke" something in the economy (as they usually do), with the collapse of Silicon Valley Bank. Last week, regulators seized and then sold another regional bank, First Republic, to JP Morgan.

But employers aren't having any of it. The Bureau of Labor Statistics reported this morning that the U.S. economy added 253,000 new jobs in April. That far exceeded market projections. Further, the unemployment rate slipped back down to 3.4%. This data fit the ADP report the day before, which showed that private employers added 296,000 jobs in April, a big bump from March's 142,000. Gains were particularly high in the services sector. It's another sign consumers, themselves mostly employed and often with raises—have the means to spend. That's a virtuous cycle the Fed would rather not see, and why hiking rates this week was the right call.

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