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Investors Eye the Risks of 4% Unemployment

The Breakfast Briefing

The unemployment rate is expected to have fallen to 4% in April, a **sign of increasing labor-market pressures** that could have big implications for investors.

The [Labor Department's U.S. jobs report](#), expected at 8:30 a.m., is expected to show another month of strong hiring. This should push the jobless rate down **after six consecutive months at 4.1%**.

That in and of itself isn't enough to cause anxiety. The Federal Reserve believes the jobless rate has further to fall, with officials in March forecasting a decline to 3.6% next year.

The fear, though, is that such a low unemployment rate will ratchet up pressure on employers to **raise wages quickly to secure workers**.

Inflation and wage growth have been rising steadily in recent months but have yet to show a sudden surge. As the shortage of available workers intensifies, investors believe that wage growth and inflation will accelerate

“The very low unemployment rate means that the pool of labor has shrunk to the point where firms just can't find all the people they want,” said analysts at Pantheon Macroeconomics.

And a pick-up in wage inflation could **encourage the Fed to accelerate the pace of rate-increases**.

Investors already had a taste back in February of what that could mean -- increased volatility, higher U.S. bond yields and a stronger dollar. For stocks, that could be hard to stomach.

Key Events

The **jobs report**, due out at 8:30 a.m. ET, is expected to show that the U.S. added 195,000 new jobs in April and the unemployment rate fell to 4% for the first time since December 2000. [Read the full preview here.](#)

The conservative Hoover Institution's monetary policy conference runs through Friday. Sitting Fed officials slated to speak include **John Williams**, **Raphael Bostic**, **Esther George** and **Robert Kaplan**, presidents of the San Francisco, Atlanta, Kansas City and Dallas reserve banks respectively, and **Randal Quarles**, vice-chairman of regulation.

Stocks to Watch

Pandora—**Up 15.8%**: The music streaming company posted a smaller-than-expected loss in the most recent quarter and also exceeded revenue targets.

Twitter—**Down 1.2%**: Twitter said it uncovered a glitch in how its users' passwords were stored. While the social-media firm said it had found no "indication of a breach or misuse by anyone," it added that users should consider changing their password.

Tesla—**Down 0.2%**: Shares of the electric auto maker fell 5.6% Thursday, their worst day in more than a month, after Chief Executive Elon Musk sparred with analysts on the firm's earnings call late Wednesday. Some said the incident [threatened investors' faith](#) at a pivotal time for the company.

GoPro—**Up 0.4%**: GoPro said quarterly sales fell less than expected, and the maker of action cameras said a ramp up in marketing and new products in the second half of the year gives it confidence for a successful 2018.
