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TRENDMACRO LIVE!

On the April Jobs Report

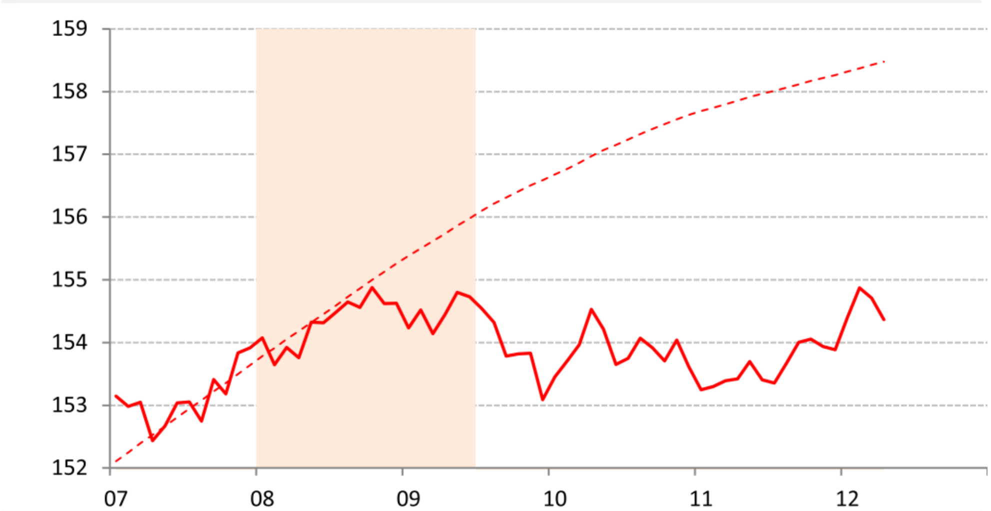
Friday, May 4, 2012

Donald Luskin

A bogus drop in unemployment. Fed doves now have two excuses in a row for easing.

With this morning's April Employment Situation Report we can definitively bury the first quarter's consensus expectations for a revival of the labor market. Don't say we didn't warn you (see "On the February Jobs Report" March 9, 2012).

- Big upside revisions to the last two months' cushions the blow this morning somewhat -- +53,000 to payrolls and a whopping +81,000 to private payrolls.
- But no one should be comforted by the drop in the unemployment rate from 8.2% to 8.1%. That achievement was the result of 342,000 persons leaving the labor force, about half of whom were previously unemployed and now have apparently given up.
- This effect, which we've been focusing on for years, has become a commonplace of media instant-analysis. No doubt you've been deluged this morning by charts of the "participation rate," now fallen to levels not seen since December, 1981. The chart below tells the same story more vividly, showing the number of jobs required to get the economy back up to full employment -- and thus trend output. The number is 4.1 million today -- and the trend continues



Source: BLS, NBER, TrendMacro calculations

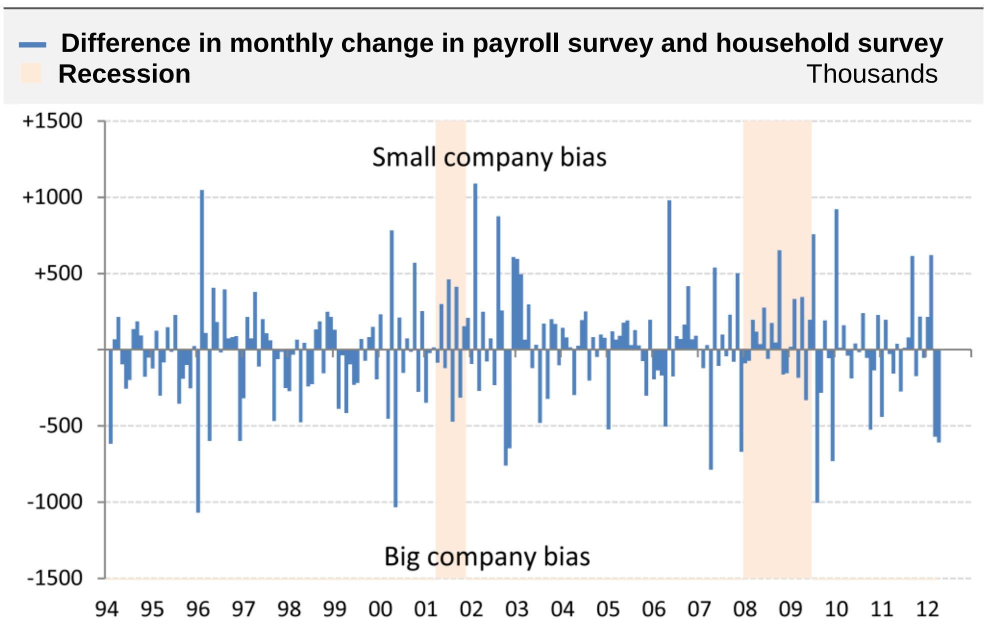
Update to strategic view

US MACRO, US FED, US STOCKS: An illusory drop in the unemployment rate as the workforce shrinks, leaving it now 4.1 million below trend. Small business job creation turned in its second month of miserable performance. The ultra-dovish aristocracy on the Fed is waiting for an excuse from the labor market to ease -- this makes two excuses in a row. With the Fed on a hair-trigger for further easing and forward earnings surging despite the soft macro backdrop, we are not changing our call that the present stock market correction is anything more than that.

[Strategy Dashboard home]

to rise every month, raising the bar on what the labor market must accomplish.

- The only way to get there from here is job creation. That seems like a vapid and obvious statement, but it stands in distinction to the optimistic consensus about the labor market this year, which has centered on the decline in new jobless claims, as though what we need is less firing, not more hiring (again, see "On the February Jobs Report" and more recently "On the April FOMC" April 25, 2012).
- Historically job creation has been predominantly something that happens in the small business sector. Sadly, as the labor market has worsened over the last couple months, small business job creation has taken the brunt of it.
- It can't be observed directly from the monthly BLS data, but we can infer it by looking at the difference between net jobs in the payroll survey (the headline 115,000 this morning) and net jobs in the household survey, adjusting the household number to the same statistical definition as the payroll number (please see the chart below). This morning's adjusted household number was a *loss* of 495,000 jobs, so the difference is 610,000 jobs. Last month's difference was similarly striking, at 572,000.
- Since the payroll survey is relatively biased toward large firms, and the household toward small, these large differences imply significant weakness developing presently in small business hiring.



Source: BLS, NBER, TrendMacro calculations

We continue to believe that the small aristocracy around Ben Bernanke on the Fed's Board of Governors is waiting for any excuse from the labor market to initiate further easing. With this morning's jobs numbers, that makes two months in a row of excuses.

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Highly influential ultra-doves Janet Yellen and William Dudley won't let the illusory drop in the unemployment rate hold them back. They are interventionists by nature, and Democrats too, and this is an election year (see "On the March FOMC" March 13, 2012). Yellen's speech several weeks ago makes it clear that she is looking at the labor market just as we are -- and for that matter, so is the less-dovish Bernanke, as he also made clear in a recent speech.

We entered the year thinking that a recession was as much as a 50/50 possibility (see "Risk Reappraisal" January 20, 2012). Even with the macro data softening a bit, as with this morning's jobs report, our view has actually brightened somewhat -- in large part because of our growing appreciation of the ultra-dovishness of the Fed's most influential policy-makers, and also because of the spectacular recovery in year-ahead forward earnings (see "A Glass of Snapple, Half Full" Friday, April 20, 2012). So we're not changing our view that the present correction in stocks is anything more than that.

Bottom line

An illusory drop in the unemployment rate as the workforce shrinks, leaving it now 4.1 million below trend. Small business job creation turned in its second month of miserable performance. The ultra-dovish aristocracy on the Fed is waiting for an excuse from the labor market to ease -- this makes two excuses in a row. With the Fed on a hair-trigger for further easing and forward earnings surging despite the soft macro backdrop, we are not changing our call that the present stock market correction is anything more than that.