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TRENDMACRO LIVE!

On the May Jobs Report

Friday, June 7, 2013

Donald Luskin

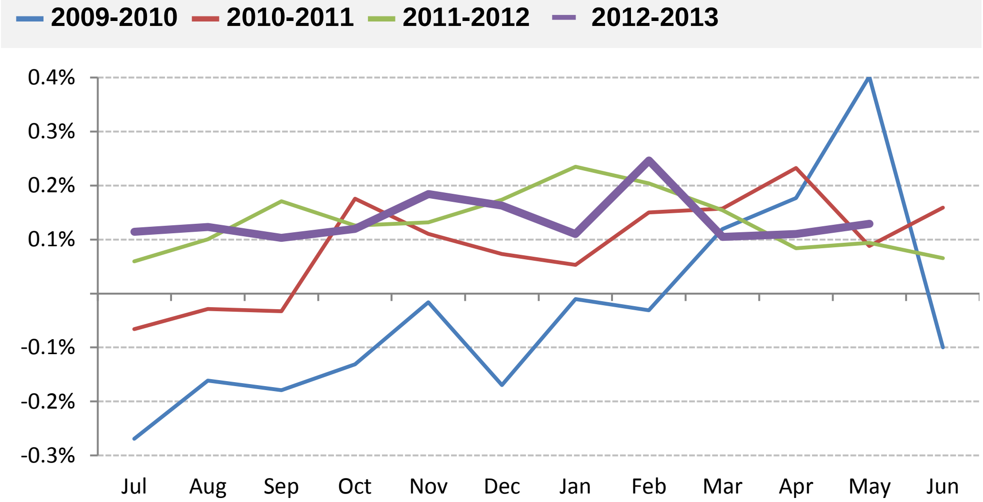
By Bernanke's own metric, the labor market just got worse. How can the Fed taper now?

This morning's Employment Situation report falsifies Fed Chair Ben Bernanke's testimony to Congress two weeks ago that "gains in total nonfarm payroll employment have averaged more than 200,000 jobs per month over the past six months." Today's reported May net payroll gain of 175,000 brings the 6-month average down to 194,000. At the May report one year ago it was 209,000.

- *By Bernanke's own metric, year over year the labor market has actually slowed!*
- On a sequential-month growth basis, payroll gains this year look pretty much like they did last year, and the year before that (please see the chart below).
- The talk we have heard all year that the labor market has upshifted to faster growth is simply wrong.

Despite Bernanke's clear hints to Congress (see "QE Steps Down Before Bernanke Does?" May 23, 2013), we can't see how the Fed could begin to taper its Large-Scale Asset Purchases (LSAPs) with the jobs market showing no improvement -- indeed, some slight worsening. All the more so

Non-farm payrolls, sequential month growth rate
From Great Recession trough, by year ending June



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO: The labor market slightly worsened in May, making false Bernanke's claim to Congress two weeks ago that payroll growth has averaged better than 200,000 for the last six months. The only good news is that the small uptick in unemployment was due to a welcome small uptick in labor force participation. Overall, the labor market looks about like it did a year ago, and a year before that. With core inflation at a record low, we continue to doubt that the Fed will really taper asset purchases any time soon.

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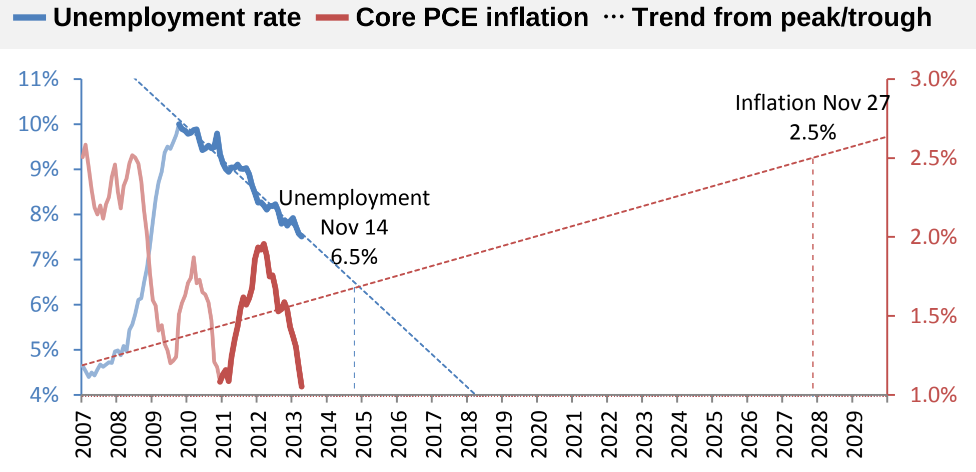
with core PCE inflation at 1.05% year-on-year, the lowest in the history of the data.

- Today's small uptick in the unemployment rate might also stay the Fed's hand. But, in fact, it too is perfectly in line with the labor market's behavior over the last three years. It is precisely on-trend to converge with the 6.5% target of the so-called "Evans Rule" in November 2014 (please see the chart below).



Source: BLS, BEA, TrendMacro calculations

- That said, ironically, the uptick in the unemployment rate was the only dim ray of better news about the jobs market in this morning's report.
- The unemployment rate rose because the labor force expanded by 420,000 persons. Of these, 319,000 persons entered the labor force employed, and 101,000 of them -- about a quarter of the total -- entered unemployed.
- Thus the rise in the unemployment rate was due to an uptick in the labor force participation rate to 63.4% from last month's generational low of 63.3% (see "On the April Jobs Report" May 1, 2013).
- Adjusted for peak labor force participation, the true unemployment rate is now 12.8%. Thankfully, this is down from last month's 12.9% (see today's "Data Insights: Jobs").

Bottom line

The labor market slightly worsened in May, making false Bernanke's claim to Congress two weeks ago that payroll growth has averaged better than 200,000 for the last six months. The only good news is that the small uptick in unemployment was due to a welcome small uptick in labor force participation. Overall, the labor market looks about like it did a year ago, and a year before that. With core inflation at a record low, we continue to doubt that the Fed will really taper asset purchases any time soon.

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