Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist
Thomas Demas, Managing Director

MACROCOSM

August Jobs Report -- What It *Doesn't* Mean

Friday, September 5, 2003

David Gitlitz

A grim-looking labor market doesn't directly threaten the expansion, but carries risks of its own.

In the short run, today's report showing another payroll contraction in August, with 93,000 jobs lost, will likely offer further support for the currently popular notion that this expansion is threatened by an apparently inert labor market. But it's a simple, irrefutable fact that growth -- and the expectation of future growth -- creates jobs; jobs do not create growth. Less dogmatic demand-based analysis accepts this basic proposition, but maintains that the expansion's endurance depends on "the consumer" having the wherewithal to continue to spend, which is unlikely unless job growth resumes. All indications are, however, that this blinkered economic vision has little relevance to current reality. For one thing, although the unemployment rate at 6.1% is up from the sub-4% mark recorded at the height of the boom three years ago, less than a decade ago a jobless rate at roughly these levels was eliciting fears of inflationary overheating from the same gang now hand-wringing over a "jobless" recovery. By the standards of the past generation or so, this labor market remains "tight."

Fact is there remains not a scintilla of evidence that the job market stagnation is putting a crimp in consumption. Quite the contrary, even amid the payroll contraction this year, consumption is posting a robust rebound. Personal consumption expenditures are up at an annual rate of some 7% over the past three months. That's an impressive comeback for consumption from a three-month annualized growth rate of just 1% last October. From our perspective, it's no mere coincidence that this recovery parallels the market's rally off last October's lows. The equity market's capitalization of rising expectations of future income is doing far more to boost present consumption than a static labor market is doing to depress it.

Then again, there are growing questions about just how "static" this labor market really is. Even as the "establishment" survey from which the **BLS** calculates the payroll numbers has shown a loss of some 338,000 private sector jobs this year, the "household" survey has reported growth of some 1.2 million jobs, 147,000 in August alone. Ordinarily, the establishment data is considered a better snap-shot of the jobs picture because it is based on a relatively broad sample of businesses, while the household data is drawn from a comparatively small sample of families and thus has a larger margin of error. Rarely, though, do the two show such discrepancies, and there are reasons to believe that under present circumstances the household survey may be more accurately capturing a nascent labor market recovery. Perhaps most important, the establishment data excludes self-employed individuals, who account for nearly a quarter of the job growth identified in the household survey this year. Growth in self-employment also is consistent with the growth-positive indications of a recovery in risk tolerance that we have been tracking since early this year.

http://www.trendmacro.com
don@trendmacro.com
dgitlitz@trendmacro.com
tdemas@trendmacro.com

Offices:
Menlo Park CA
Parsippany NJ
Stamford CT

Phone:
650 429 2112
973 335 5079
203 322 1924

In the final analysis, it may well be that the greatest risk presented by the jobs data is in the potential for its misinterpretation by monetary policy makers, as was made plain by the comments yesterday of **Fed Governor Ben Bernanke**. Bernanke was, in effect, presenting a recipe for rising inflation risk, remarking that "growth that is generated solely by increased productivity, and that is unaccompanied by substantial employment growth, may possibly require monetary ease, rather than monetary tightening, in the short run." This raises the specter of the central bank, heedless to what other inflation risk indicators might be signaling, easing for the express purpose of inducing new hiring.

This is the obverse of the twisted thinking that dominated Fed policymaking in the late 1990s and led to the deflationary recession from which we are only now convincingly emerging. It is, however, consistent in its perverse wrong-headedness: if the Fed could induce a disastrous liquidity scarcity in its drive to stem the shrinkage of the "pool of available workers," it's not difficult to envision an inflationary dollar excess being engendered now in order to soak up the labor surplus. That, needless to say, offers reason enough to hope for a return of job growth as soon as possible. The combination of Bernanke's still-fresh comments and the employment data were sufficient today to roll back a portion of the rate-hiking expectations discounted in the credit markets over the past several weeks. The curve-steepening, however, with the 10-year note rallying about four basis points less than the nearly 20 bp move at the short end of the curve, suggests that much as the bond market may have welcomed the news, it is not unmindful of the risks. Those risks were probably best captured by the spot price of gold, which jumped from $372 to $377 -- a seven-month high -- in the aftermath of the jobs report. TM