

TRENDMACRO LIVE!

On the October Jobs Report

Friday, November 8, 2013

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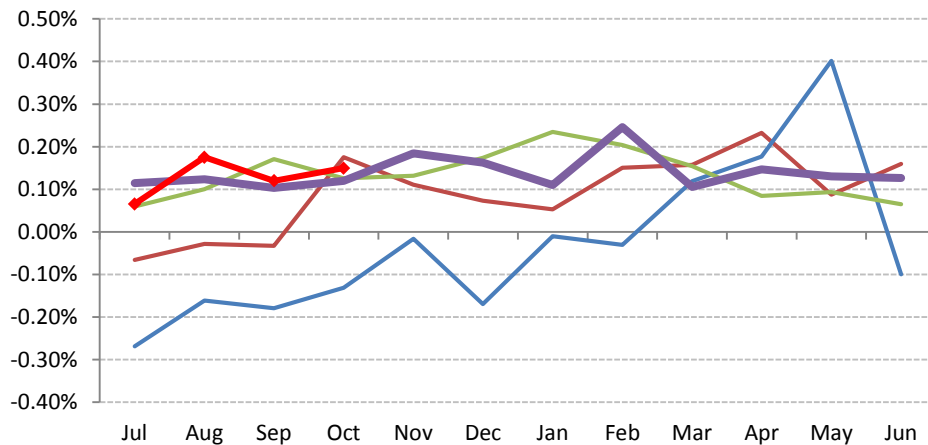
Another upside surprise, in a world that is suddenly less risky and more growth-friendly.

[This morning's Employment Situation report](#) was a major upside surprise, even before including substantial revisions to the last two months. Altogether, this new data puts the 2013 labor market on a sustained higher path than that of 2012 (please see the chart below).

Non-farm payrolls, sequential month growth rate

From Great Recession trough, by year ending June

— 2009-2010 — 2010-2011 — 2011-2012 — 2012-2013 ◆ 2013-2014 data



Source: BLS, TrendMacro calculations

We've been saying that we are now going to take at face value any upside surprises in macro data -- like this morning's jobs report yesterday's Q3 GDP (see ["On Q3 GDP"](#) November 7, 2013) -- in light of our new view that the world is a less risky and more growth-friendly place (see ["A Major Upgrade to our Strategic Outlook"](#) September 12, 2013). But given potential distortions from last month's government shutdown, this jobs report is certainly suspect, and subject to revision.

- The Bureau of Labor Statistics said this morning that it saw "no discernible impacts of the partial federal government shutdown on the estimates of employment, hours, and earnings from the establishment survey."

Update to strategic view

US MACRO: A major upside surprise in jobs, with substantial revisions, putting the labor market on a higher path for 2013 than it was on in 2012. We are now prepared to accept such surprises at face value, believing they fit in with our view that the world is a less risky and more growth-friendly place. But given the government showdown, we are prepared for revisions and reversals next month. But those are most likely in the "household survey" that provides the unemployment rate and the labor force participation rate -- which were the dark spots in this morning's report.

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- Federal government employment fell by only 12,000 payrolls.
- This is no surprise to us -- we have argued all along that the shutdown would have minimal economic impact (see "[On the Shutdown and Debt Limit Deal](#)" October 17, 2013).
- That said, the BLS includes this morning an elaborate disclaimer about possible distortions in the "household survey" used to determine the unemployment rate and the labor force participation rate.
- So while it's an alarming counterpoint in this morning's report to see the "household survey" reporting a drop of 720,000 in the size of the labor force, bringing the participation rate down to a new low at 62.8% -- at the same time as a small uptick in the unemployment rate -- we would not be surprised to see this data reverse itself next month.
- Without rounding, the unemployment rate in fact only rose four tenths of one percent. This has no impact on the durable and highly correlated trend bringing the unemployment rate to the 6.5% target for the Fed's so-called "[Evans Rule](#)" in October 2014.

Bottom line

A major upside surprise in jobs, with substantial revisions, putting the labor market on a higher path for 2013 than it was on in 2012. We are now prepared to accept such surprises at face value, believing they fit in with our view that the world is a less risky and more growth-friendly place. But given the government showdown, we are prepared for revisions and reversals next month. But those are most likely in the "household survey" that provides the unemployment rate and the labor force participation rate - - which were the dark spots in this morning's report. ▶

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