Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Lorcan Roche Kelly, Europe Research Affiliate

TRENDMACRO LIVE!

On the November Jobs Report

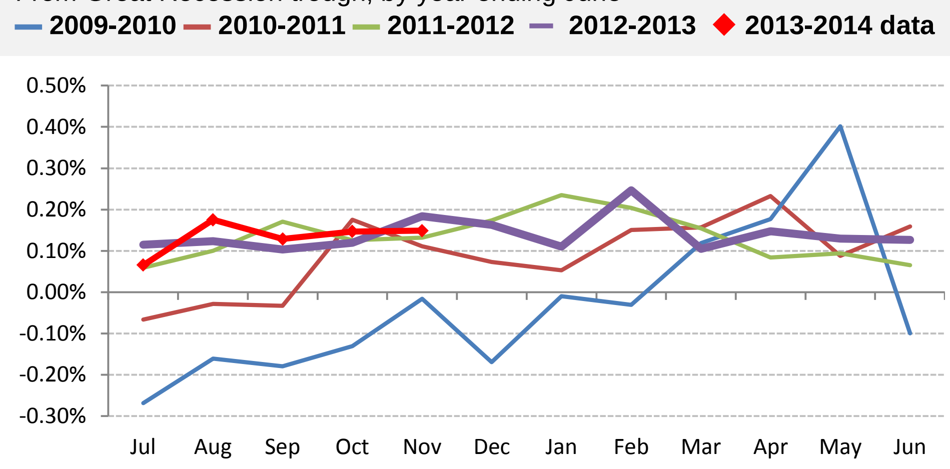
Friday, December 6, 2013
Donald Luskin

We just hit 7% unemployment -- where Bernanke had promised tapering would be all done.

This morning's Employment Situation report was an upside surprise to the consensus in every respect, but it was not an especially outstanding data point *per se*. It was not good enough to make it drop-dead certain that the Fed will begin to taper Large-Scale Asset Purchases (LSAPs) at one of the next two meetings, as we now expect (see "Yellen and Screamin' at the Fed" December 5, 2013). But in many ways it does confirm that expectation for us.

- *Though an upside surprise, there's no phase-shift in the direction of goodness in these numbers.* Indeed, the sequential-month growth in payrolls is slightly below last year's pace at this time, having been above-pace for the prior three months (please see the chart below).

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



Source: BLS, TrendMacro calculations

- And the big drop from 7.3% to 7% in the unemployment rate is likely the result of statistical noise arising from October's partial government shutdown rolling out of the "household survey."
- But that is not to say that 7% is a falsely low number -- rather, 7.3% last month was falsely high.
- This keeps the unemployment rate perfectly on-trend for its

Update to strategic view

US MACRO, US FED: An upside surprise, but not a quantum shift for the better. But the 7% unemployment rate is where Bernanke promised just six months ago that tapering would have already been completed. But he didn't expect that target until mid-year 2014 -- so from the Fed's perspective, the labor market is performing very much above expectations. How can tapering possibly be further deferred?

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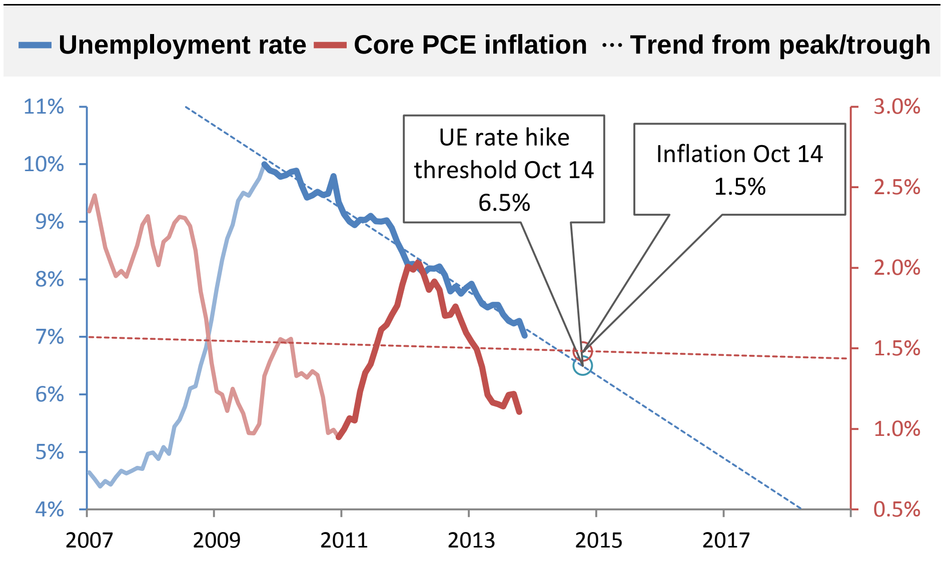

Source: BLS, BEA, TrendMacro calculations

rendezvous with the Fed's so-called "Evans Rule" threshold of 6.5% in October 2014 (please see the chart above).

- *What's more important, from Fed chair Ben Bernanke's view, is that 7% is the level of the unemployment rate at which he said last June that LSAPs would have terminated completely. In other words, by now, according to Bernanke's guidance just six months ago, tapering should have been begun, executed and completed.*
- But six months ago Bernanke was saying he expected a 7% unemployment rate by "around midyear" 2014.
- *In other words, over the last six months the labor market has vastly outperformed Bernanke's expectations on the upside, hitting 7% unemployment a full half-year sooner than he expected to just a half-year ago!*

Bernanke's expectations aside, we did not see in the numbers this morning the kind of labor market improvement we are expecting to arise sometime over the coming year -- as the global economy is increasingly recognized as a less risky and more pro-growth place (see "A Major Upgrade to our Strategic Outlook" September 12, 2013).

But from the Fed's viewpoint, surely the case for *not* tapering -- based on all its own statements about it -- is getting increasingly untenable. We continue to expect it by the January FOMC meeting.

Bottom line

An upside surprise, but not a quantum shift for the better. But the 7% unemployment rate is where Bernanke promised just six months ago that tapering would have already been completed. But he didn't expect that target until mid-year 2014 -- so from the Fed's perspective, the labor market is performing very much above expectations. How can tapering possibly be further deferred?

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
617 600 6969
lorcan@trendmacro.com

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