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TRENDMACRO LIVE!

On the January Jobs Report

Friday, February 7, 2014

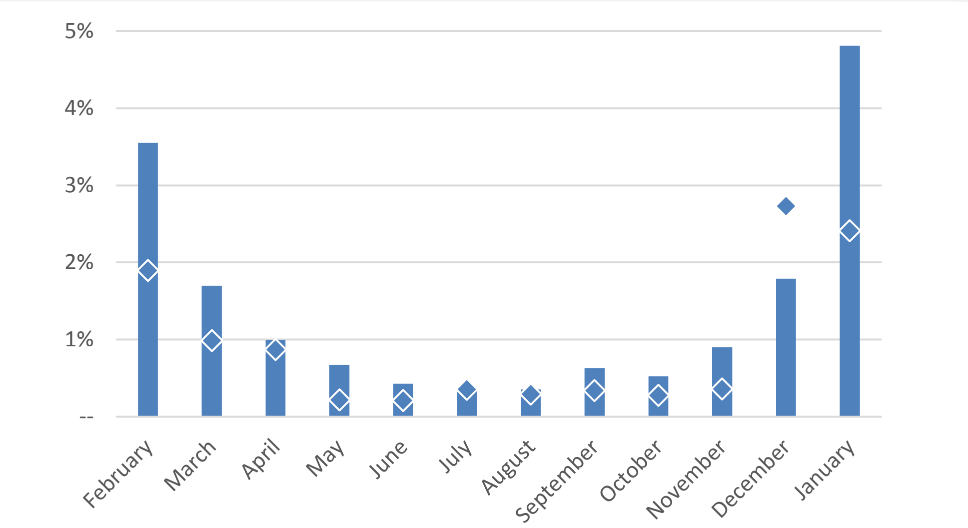
Donald Luskin

Can't blame the weather this time. But now we're just 8 basis points from the Evans Rule.

This morning's Employment Situation report adding 113,000 payrolls was the second big miss in a row, even against consensus expectations for 180,000 having presumably been adjusted for weather effects.

- By the numbers, there was no weather effect in January's numbers, as there had so strongly been in December's (see "Weather? Or Not?" February 6, 2014).
- In fact, the share of unemployment explained by weather last month was half that of the average January from 1976 (please see *the chart below).*

Share of unemployment due to weather ■ **Avg 1976-2013** ◆ **Latest months**



Source: BLS, TrendMacro calculations

- *It's hard to know what to make of this. Obviously the weather in January, on average, was quite severe -- and most of us know from personal experience that it created various disruptions.*
- *However the week in which the Bureau of Labor Statistics takes its surveys happens to have been the mildest week of the month.*

The real disappointment was the failure to revise away last month's big

Update to strategic view

US MACRO, US FED, US BONDS: Another strange jobs report. No visible weather effect, but then again the BLS's measurement week was the warmest in January. Besides the headline miss in payrolls, the big disappointment was the failure to revise away December's miss. But on the plus side, the unemployment rate fell to 6.58%. The news here isn't bad enough to keep Yellen from continuing Bernanke's tapering regime. But it's not good enough for her to back off forward guidance keeping rates at zero "well past" the "Evans Rule" threshold -- from which we are now only 8 bp away. As the global markets work through the present correction, confidence will be enhanced and growth will accelerate, free from the threat of systemic contagion. That will be the driver of Treasury yields, not this morning's jobs report and not the Fed. We continue to expect the 10-year yield to be at 3.5% by year-end.

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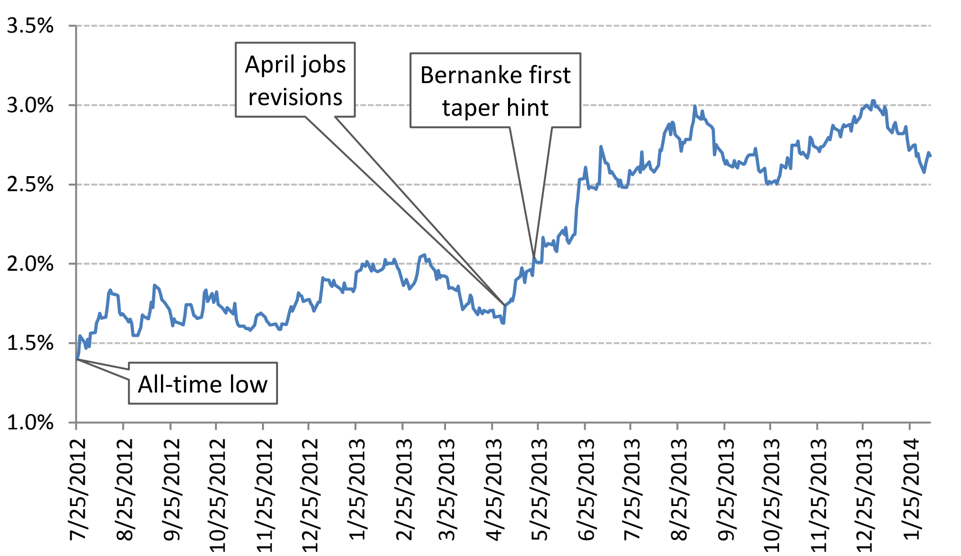
miss. December 2012's measly payroll gain of 74,000 was only revised higher by 1,000.

- Revisions can mean a lot to markets. Remember, last May the April Jobs report strongly upwardly revised a very disappointing March report, as well as what had been a fairly strong February report (see "On the April Jobs Report" May 1, 2013).
- This whipsaw in the platform of information on which consensus expectations were based triggered a whole new trajectory higher for Treasury yields (please see the chart below).This was three weeks before Fed Chair Ben Bernanke gave the first hint that tapering might begin, which only continued the new trend that had been set in motion already by the April jobs report (see "QE Steps Down Before Bernanke Does?" May 23, 2013).

10-year Treasury yield



Source: Bloomberg, TrendMacro calculations

This morning's jobs report was not that kind of expectations-changer.

- It wasn't bad enough -- or unambiguous enough -- to give new Fed Chair Janet Yellen an excuse to reverse the tapering program set firmly in place by Bernanke (see "On the January FOMC" January 29, 2014).
- And what was good about it wasn't good enough to cause her to want to pull back on the very dovish forward guidance that now promises to keep rates ultra-low "well past" the from the Fed's so-called "Evans Rule" threshold of 6.5% unemployment.
- In this morning's report the unemployment rate edged closer to that threshold. Now at an unrounded 6.58%, it is just 8 tantalizing basis points away.
- And this month we got there the right way, too. Unemployment fell (by 115,000 jobs) at the same time as the labor force increased (by

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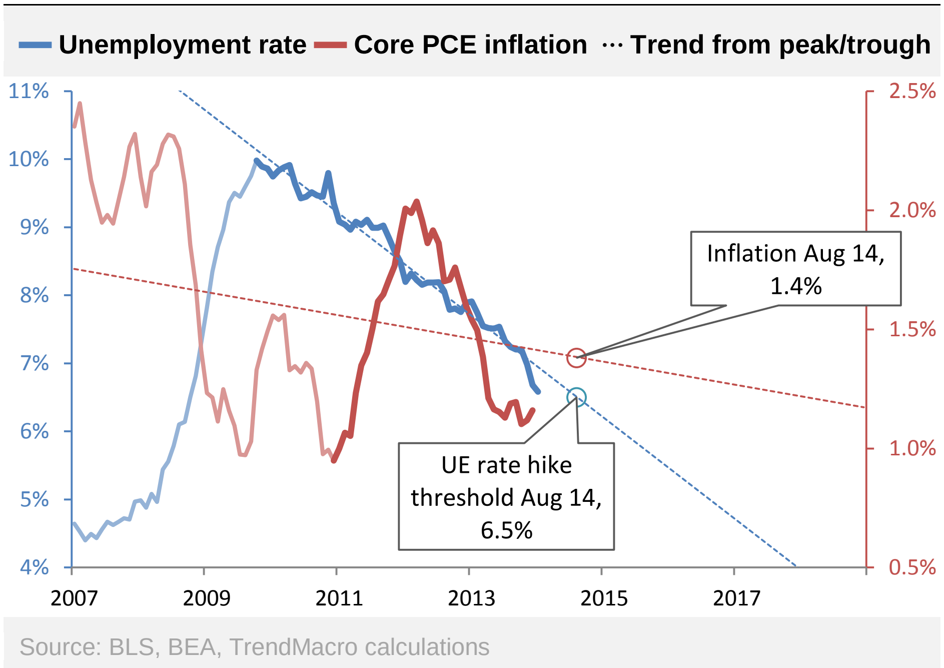
523,000 jobs).

- If the present trend in unemployment from its Great Recession peak continues, there will be some ups and some downs that will land us at the "Evans Rule" threshold of 6.5% in August (please see the chart below).



- Today's data slightly steepens the downtrend in unemployment, bringing that date in from September, where it had been last month, and October, where it had been the month before. By the benchmark of unemployment -- however flawed that might be -- the labor market is improving, and the rate of improvement is itself improving.

Bottom line

Another strange jobs report. No visible weather effect, but then again the BLS's measurement week was the warmest in January. Besides the headline miss in payrolls, the big disappointment was the failure to revise away December's miss. But on the plus side, the unemployment rate fell to 6.58%. The news here isn't bad enough to keep Yellen from continuing Bernanke's tapering regime. But it's not good enough for her to back off forward guidance keeping rates at zero "well past" the "Evans Rule" threshold -- from which we are now only 8 bp away. As the global markets work through the present correction, confidence will be enhanced and growth will accelerate, free from the threat of systemic contagion. That will be the driver of Treasury yields, not this morning's jobs report and not the Fed. We continue to expect the 10-year yield to be at 3.5% by year-end.