

TRENDMACRO LIVE!

## On the February Jobs Report

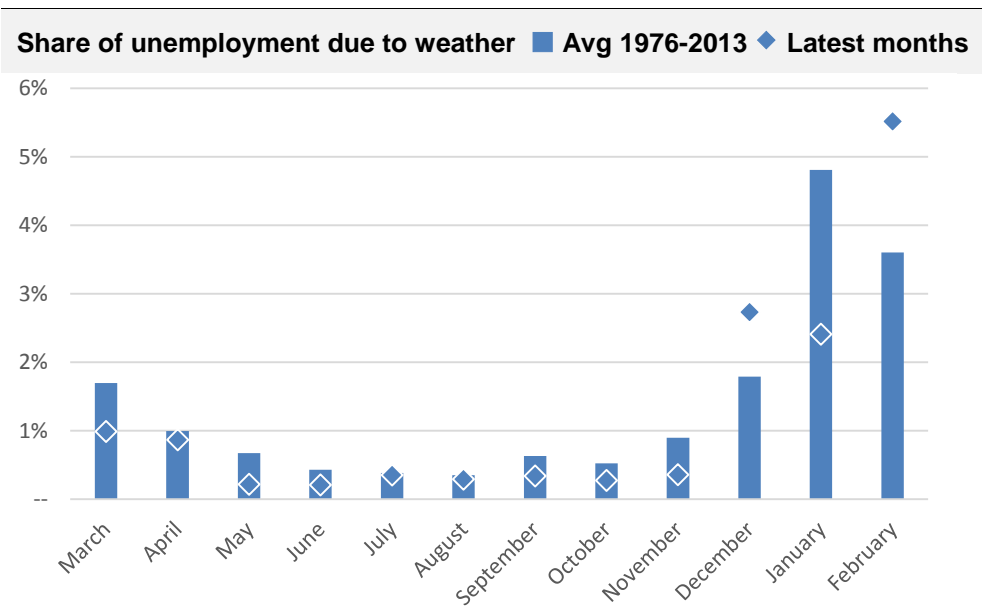
Friday, March 7, 2014

Donald Luskin

**Sign of strength: by the data, this near-historic February chill should have produced zero jobs.**

[This morning's Employment Situation report](#) was a double upside surprise, with 175,000 net payroll jobs beating expectations for only 145,000 -- and upward revisions of 25,000 taking out about half the miss in [last month's report](#) (see ["On the January Jobs Report"](#) February 7, 2014).

- *Without a doubt, weather was a factor in keeping the numbers from being even higher. 5.5% of unemployed persons claimed weather as the reason for their joblessness, compared to 3.6% in a typical February (please see the chart below).*



Source: BLS, TrendMacro calculations

- At this point there should be no serious doubt that weather is taking a toll on economic performance (see ["Weather? Or Not?"](#) February 6, 2014).
- The last twenty years have been unusually warm, so seasonal adjustments for winter's deleterious effects have gradually learned to be smaller and smaller.
- This winter has thwarted the seasonal adjustments big-time. We are two thirds through what is, so far, almost the worst Q1 on

### Update to strategic view

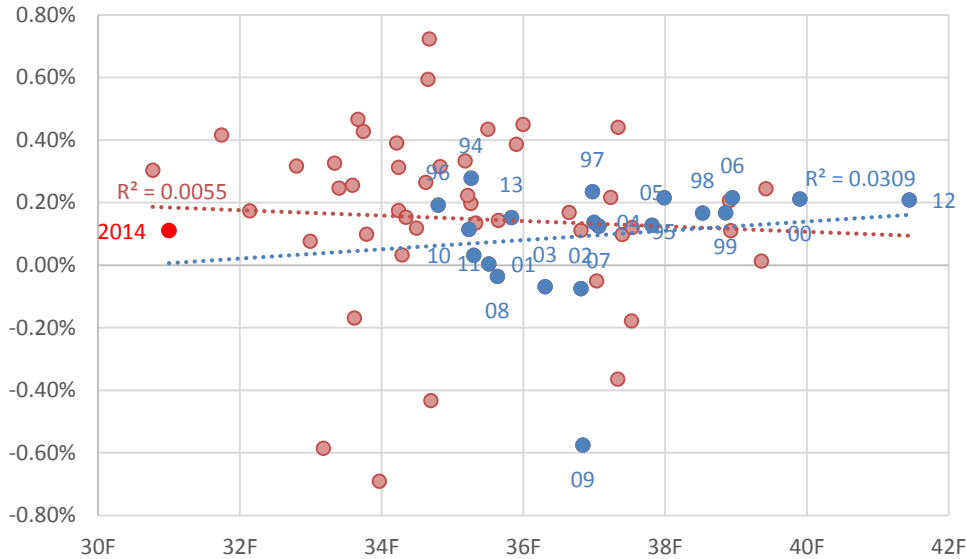
**US MACRO, US FED:** An upside surprise in jobs, despite unambiguous negative impacts from the cold weather. Based on 68 years of data, and adjusting for the near-historic severity of this winter, payroll jobs gains should have been zero this month and last. That there have been gains at all is a sign of strength. So is the small rise in the unemployment rate, which is due entirely to new entrants coming into the labor force. This is a sweet-spot for Yellen, which requires her to make no decisions yet: the data isn't bad enough to disrupt tapering, and unemployment has backed away from the "Evans Rule" threshold at which point she would have had to explain away the Fed's inaction.

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record in 68 years of data (please see the chart below).

- *Indeed, given the mean national temperature in January and February, by historical standards those months should have shown no net non-farm payroll gains at all.*

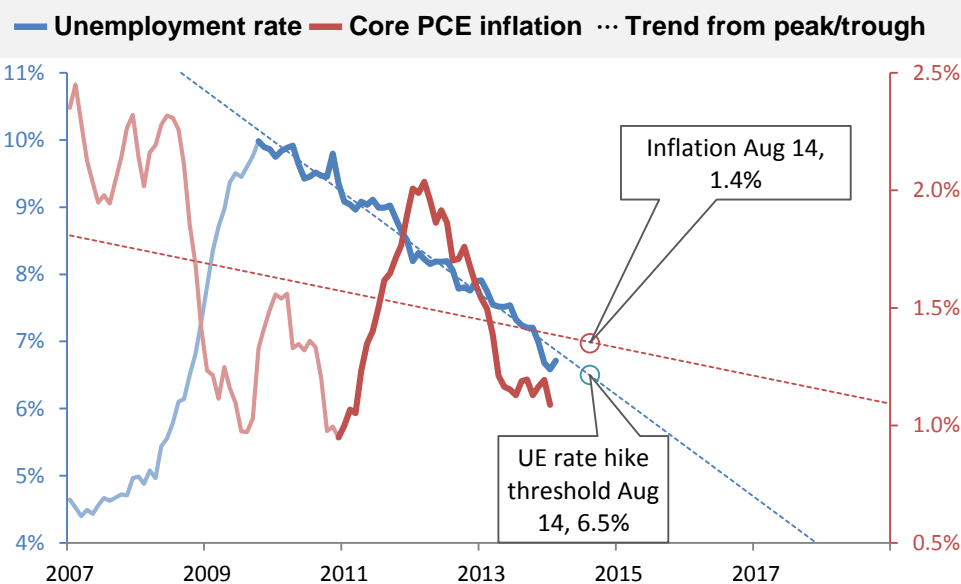
**Q1 real GDP growth, SAAR, versus mean US temperature**  
 • 2014 QTD • From 1948 to 2013 • From 1994 to 2013 --- Linear trends



Source: BEA, National Climactic Data Center, TrendMacro calculations

- *The straightforward conclusion is that the economy is stronger than it looks, and that -- unless this winter has been harsh enough to put the economy through some kind of negative tipping-point -- well, to quote [Chance the Gardner](#), "growth will return in the spring."*

A clear sign of strength is that the rise in the unemployment rate to 6.72%



Source: BLS, BEA, TrendMacro calculations

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Reading**

[Cut Off the Russian Oligarchs and They'll Dump Putin](#)  
Garry Kasparov  
*Wall Street Journal*  
March 7, 2014

[Why Eastern Ukraine is an integral part of Ukraine](#)  
Ralph S. Clem  
*Washington Post Monkey Cage*  
March 7, 2014

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from last month's 6.58% was due entirely to the influx of 264,000 persons into the labor force. To be sure, 84% of them came in without a job -- which is why the unemployment rate went up -- but at least they came in.

- This takes a little bit of pressure off the Fed. It was getting embarrassing, with unemployment just 8 basis points from the so-called "[Evans Rule](#)" threshold of 6.5%.
- The decline in unemployment from its October 2009 peak at 10% had gotten ahead of what had been a very reliable trend rate. Today's uptick brings unemployment most of the way back to trend (please see the chart on the previous page). So our base case is still that unemployment will hit the threshold with the August jobs data.
- This puts us in something of a sweet-spot for the Fed during Janet Yellen's honeymoon as new chair.
- *The data is not bad enough to give her an excuse to suspend tapering Large-Scale Asset Purchases, overriding the policy fait accomplis handed her by outgoing Ben Bernanke* (see "[On the January FOMC](#)" January 29, 2014).
- *And the data is not good enough to make her have to explain away sailing through the "Evans" threshold and yet taking no action.*
- *This defers the day when Yellen will have to make her first actual decision as chair -- that is, the day of her first test of leadership*  
*Thus it defers the day that Yellen, who we believe will be a poor leader, finds herself in market-disrupting conflict with the FOMC* (see, among others, "[Yellen and Screamin' at the Fed](#)" December 5, 2013).

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### Bottom line

An upside surprise in jobs, despite unambiguous negative impacts from the cold weather. Based on 68 years of data, and adjusting for the near-historic severity of this winter, payroll jobs gains should have been zero this month and last. That there have been gains at all is a sign of strength. So is the small rise in the unemployment rate, which is due entirely to new entrants coming into the labor force. This is a sweet-spot for Yellen, which requires her to make no decisions yet: the data isn't bad enough to disrupt tapering, and unemployment has backed away from the "Evans Rule" threshold at which point she would have had to explain away the Fed's inaction. ▶