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TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 4, 2014
Donald Luskin

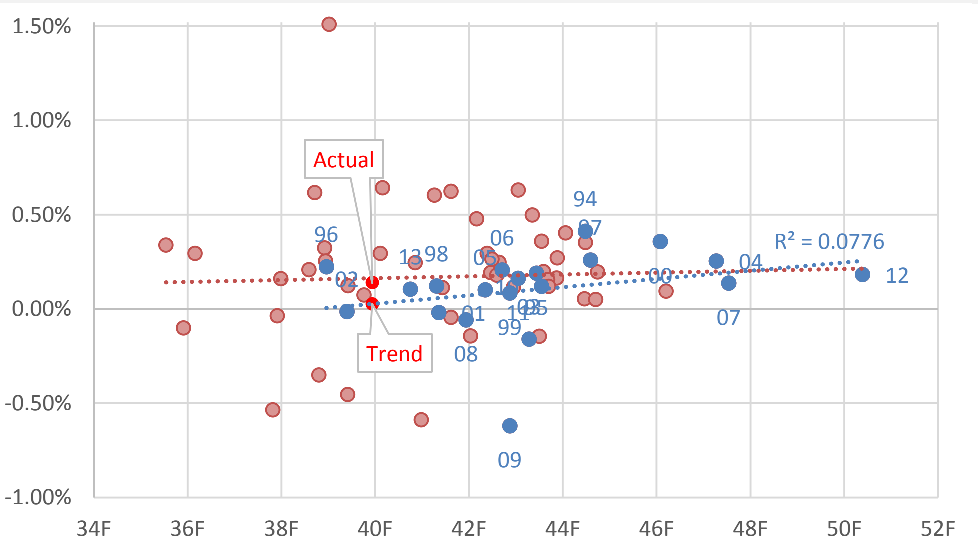
Relief, but the third coldest March in 20 years. By history, should have been just 36,000 jobs.

This morning's Employment Situation report was unremarkable at the headline level, 192,000 net payroll jobs versus expectations for 200,000. The best news was that the "household survey" showed 503,000 persons entering the workforce, all but 5.4% of whom came in with a job. Thus an uptick in the depressed labor force participation rate from to 63.2% from 62%, but leaving the unemployment rate unchanged at 6.71%.

- This, and an unusually large 0.7% jump in hours worked, implies that March saw some relief from the effects of the harsh weather of January and February (see "Weather? Or Not?" February 6, 2014).
- *But March was unusually cold, too. The mean national temperature of 39.9 degrees makes it the 18th coldest March in the 68 years of post-war jobs data. It was the third coldest in the last 20 years.*
- *Based on the trend of the last 20 years, March net payrolls should have gained only 36,000* (please see the chart below).

We continue to believe that Q1's cold weather -- overall the 12th coldest in

Change in March non-farm payrolls, vs mean national temperature
• From 1948 • Last 20 years • March 2014



Source: BLS, National Climactic Data Center, TrendMacro calculations

Update to strategic view

US MACRO, US FED, US BONDS: March jobs showed some relief from the extreme weather of January and February. But this was the third coldest March in the last 20 years. Given the mean national temperature, net payroll gains should have been only about 36,000. Bad weather has been an ugly mask disguising increasingly attractive growth dynamics. As weather normalizes, this will show through in the data. This will bring forward the day on which the Fed has to begin to normalize policy. But whatever the Fed does, bonds will take better growth prospects on board, moving the 10-year yield to 3.5% by year-end.

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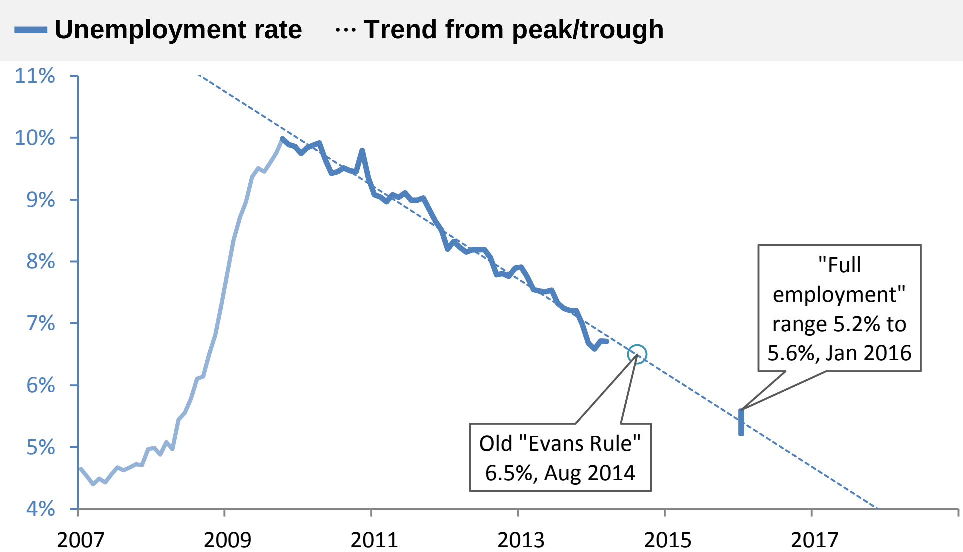
68 years, and by far the coldest of the last 20 -- has put a falsely negative face on jobs data, and other macro data too. As the weather normalizes, we don't necessary expect a lot of bounceback as deferred activity comes on line -- but we do expect the weather will cease to be an ugly mask disguising an increasingly attractive growth environment.

- That view is at variance with the consensus this morning -- and the apparent reaction in the bond market -- that today's jobs numbers are a sweet-spot, where the economy chugs along without pressuring the Fed to back off its current policy posture of extreme ease.
- Today's numbers keep perfectly intact our trend forecast for August 2014 as the month in which unemployment hits 6.5% -- formerly the Fed's "Evans Rule" threshold for considering rate hikes (please see the chart below). The FOMC had to back away from that quantitative milestone for its forward guidance (see "On the March FOMC" March 19, 2014), because its impending arrival rendered non-credible what seems to be regarded as a necessary fairy-tale: that extreme accommodation will go on virtually forever.
- Our trend forecast can be extended to show January 2016 as the month in which the economy achieves full employment as new chair Yellen now defines it -- an unemployment rate from 5.2% to 5.6% (please see the chart below again, and "On Yellen's First Public Speech as Fed Chair" March 31, 2014).



Source: BLS, BEA, TrendMacro calculations

- But to the extent that Q1 weather has been a mask, then in the coming months the trend will change for the better, drawing nearer these dates with policy destiny.
- Yellen's regrettable blurt in last month's post-FOMC press conference -- that the "considerable period" between the end of asset purchases and the first rake hike would be "you know…something on the order of around six months or that type of thing" -- may prove to be an overestimate.

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Recommended Reading

Big data: are we making a big mistake?
Tim Harford
FT Magazine
March 28, 2014

Two struggling workers mentioned by Fed's Yellen had criminal records
Jeffry Bartash
MarketWatch Capital Report
April 1, 2014

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Bottom line

March jobs showed some relief from the extreme weather of January and February. But this was the third coldest March in the last 20 years. Given the mean national temperature, net payroll gains should have been only about 36,000. Bad weather has been an ugly mask disguising increasingly attractive growth dynamics. As weather normalizes, this will show through in the data. This will bring forward the day on which the Fed has to begin to normalize policy. But whatever the Fed does, bonds will take better growth prospects on board, moving the 10-year yield to 3.5% by year-end.