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

TRENDMACRO LIVE!

On the April Jobs Report

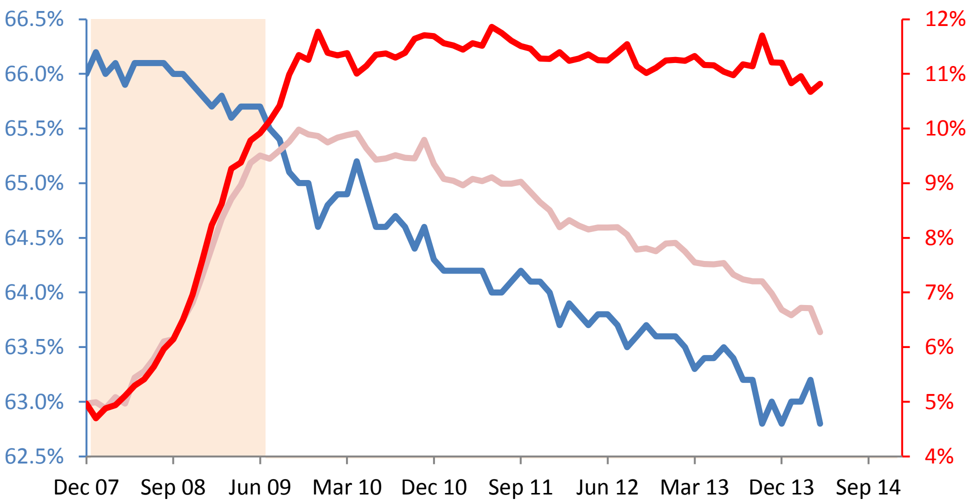
Friday, May 2, 2014
Donald Luskin

Great cyclical news, lousy structural news. And the Fed ditched the Evans Rule just in time.

With this morning's Employment Situation report announcing an unemployment rate of just 6.3%, it's lucky the Fed abandoned its so-called "Evans Rule" threshold of 6.5% (see "On the March FOMC" March 19, 2014) -- or there'd be some real explaining to do. The 6.3% print is problematic, coming as the result of 806,000 persons leaving the labor force, 91% of them having been unemployed, dropping the labor force participation rate back to a multi-generational low of 62.8 (see "Data Insights: Jobs" May 2, 2014). The Bureau of Labor Statistics tried to explain away the drop in the participation rate, saying it was "due mostly to fewer people entering the labor force than usual, rather than to more people exiting the labor force."

- Say what they will, the fact remains that when we adjust for the participation rate, unemployment actually ticked higher in April (please see the chart below).

But there was much good news this morning, even beyond the large upside surprise of 288,000 net payrolls, versus consensus expectations for



Source: BLS, TrendMacro calculations

Update to strategic view

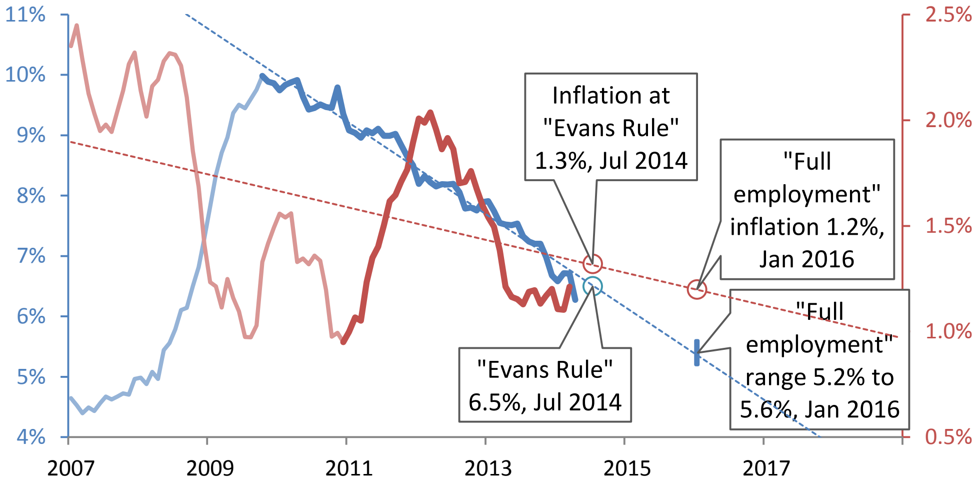
US MACRO: A strong upside surprise in payrolls and unemployment, against the disturbing backdrop of a falling labor force participation rate. Weather effects now seem to have washed through the data, leaving payroll growth on a higher trend than in either of the two previous years. With hours worked now at all-time highs -- but not much higher than they were in 2000 -- we see the paradox of improving cyclical recovery against the backdrop of lingering structural weakness. To the extent that structural weakness means no capacity constraints, it works to the advantage of the cyclical improvement at the margins that drive earnings and sentiment.

[Strategy Dashboard home]

only 218,000 -- plus upward revisions to March and April of 11,000 and 25,000 respectively.

- However much it is being perturbed by the participation rate, it remains a salient fact that the unemployment rate is falling much faster than implied by its highly correlated trend from its peak in the Great Recession. Even including today's surprise in the calculation, the trend unemployment rate shouldn't have hit even 6.5% until July (please see the chart below).

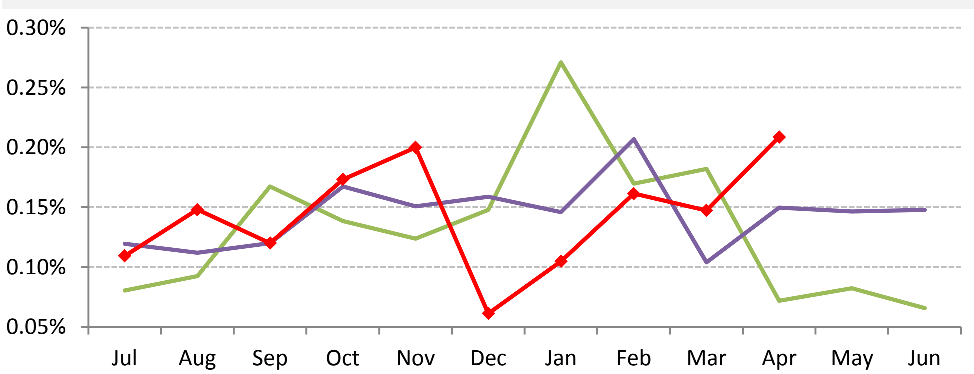
Yellen's Evans Rule Unemployment rate ··· Trend from peak
Core PCE inflation YOY ··· Trend from trough



Source: BLS, BEA, TrendMacro calculations

- And setting aside how many people are *not* working, the number of people who *are* working is improving. There was a very soft quarter in the midst of the coldest winter since 1985 (see "On Q1 GDP" April 30, 2014). But now net payrolls are growing faster than in the two prior years of the steady-state in the Not So Great Expansion following the Great Recession (please see the chart below).

Non-farm payrolls, sequential month growth rate By year-ending June
2011-2012 **2012-2013** **2013-2014**



Source: Bureau of Labor Statistics, TrendMacro calculations

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

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

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

[About us]

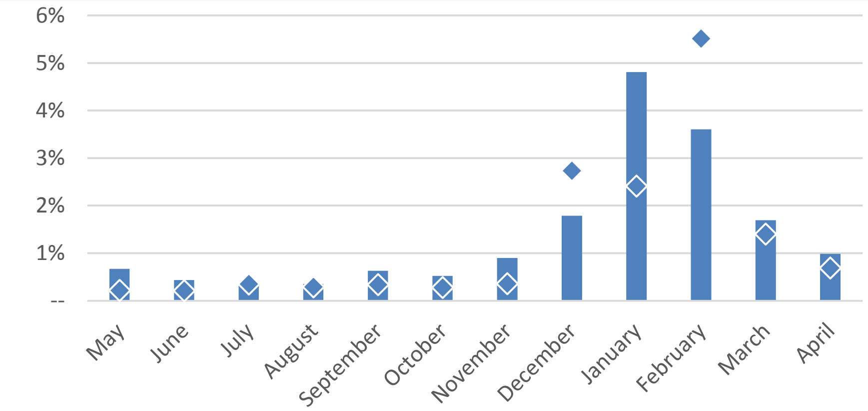
Recommended Reading

BOE: Ex-Fed Warsh To Review Case For Full MPC Transcripts
MNI
April 30, 2014

[Reading home]

- Some of that apparent outperformance could be due to pent up demand as the weather improves. But there is evidence that winter effects have washed through the data already. After February's far greater-than-average share of unemployment explicitly due to weather, April is now the *second* month in a row back to just below the long-term average (please see the chart below).

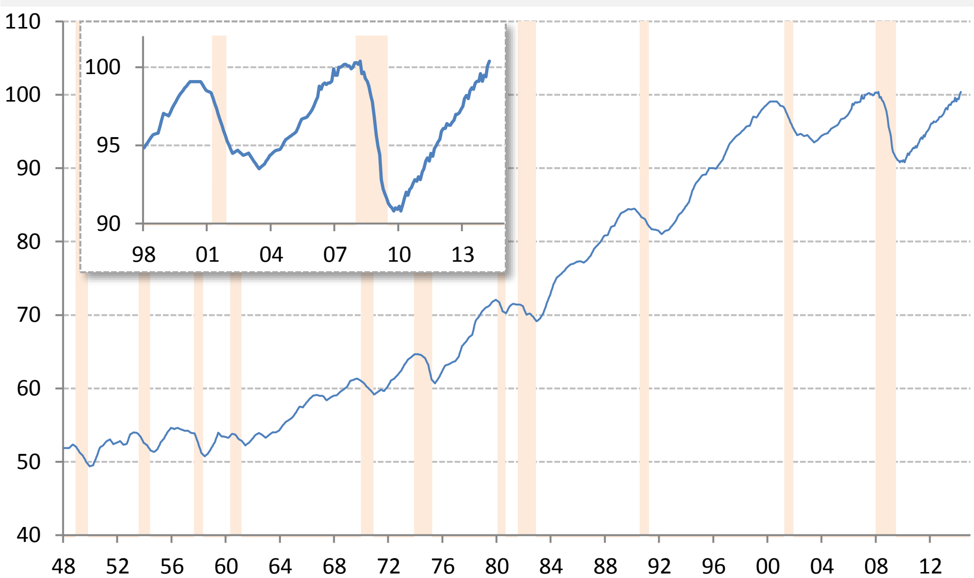
Share of unemployment due to weather ■ **Avg 1976-2013** ◆ **Latest months**



Source: Bureau of Labor Statistics, TrendMacro calculations

All of this highlights the conundrum that faces both policy-makers and investors -- how to sort out the meaning of improving cyclical behavior against the backdrop of what increasingly looks like very poor structural conditions. A data series that speaks volumes on this is hours worked. The good news is that in April they posted all-time highs (please see the inset chart below). The bad news is that it took more than six years to beat the anemic peak in the last expansion -- now, not in much better shape than at the peak prior to that in 2000 (please see the larger chart below).

Aggregate weekly hours worked index **Recession**



Source: BLS TrendMacro calculations

- The structural issues are challenging. But we mustn't let them blind us to the opportunities created by accelerating cyclical elements.
- The structural challenges form the backdrop, the platform, the starting point -- the cyclical elements are the changes at the margin that will drive changes in economics, earnings and sentiment.
- We continue to expect that sometime this year the cyclical elements will be seen to improve dramatically -- in some sense, all the more so against the backdrop of a weak structural environment (see "A Major Upgrade to our Strategic Outlook" September 12, 2013).

Bottom line

A strong upside surprise in payrolls and unemployment, against the disturbing backdrop of a falling labor force participation rate. Weather effects now seem to have washed through the data, leaving payroll growth on a higher trend than in either of the two previous years. With hours worked now at all-time highs -- but not much higher than they were in 2000 -- we see the paradox of improving cyclical recovery against the backdrop of lingering structural weakness. To the extent that structural weakness means no capacity constraints, it works to the advantage of the cyclical improvement at the margins that drive earnings and sentiment.