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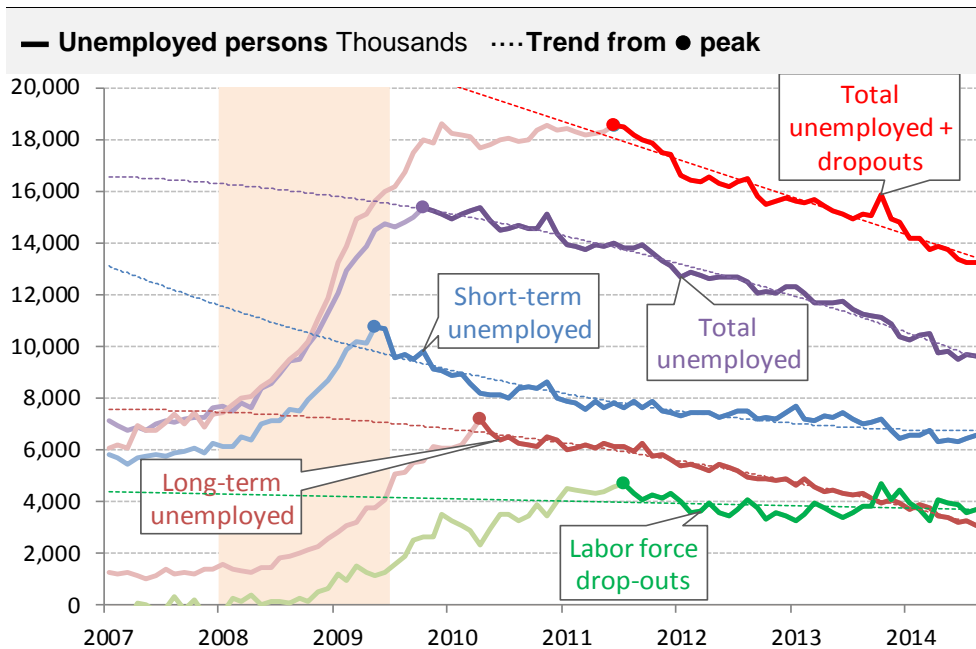Lorcan Roche Kelly, Europe Research Affiliate

TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 5, 2014
Donald Luskin

A bad jobs report -- but the key metric in this labor market continued to improve.

[This morning's Employment Situation report](#) was a big miss, with 142,000 net new payrolls against a consensus for 230,000 -- all the worse for a net downward revision of 28,000 for the prior two months.

- This takes jobs growth back to the dismal levels of this year's harsh winter, and would seem to more than break the momentum of strong performance coming out of that adversity.
- Indeed, it would seem to lend credence to the idea that jobs growth will be especially difficult going forward, because short-term unemployment has been substantially absorbed, leaving only the less employable long-term unemployed (please see the chart below, and ["The Low Hanging Fruits of Our Labor"](#) July 15, 2014).
- Indeed, there has been no improvement in short-term unemployment for three months -- it bottomed in June, and has ticked up slightly in July and August. Not surprising -- we're only about 500,000 away from full employment there, as benchmarked by the number of unemployed just before the Great Recession.

— Unemployed persons Thousands ·····**Trend from ● peak**

Short-term unemployed

Total unemployed + dropouts

Total unemployed

Long-term unemployed

Labor force drop-outs

Source: BLS, TrendMacro calculations

- Long-term unemployment is maintaining its trend of sharp improvement, which tells us that the US economy is, in fact, far from full employment -- as Fed Chair Janet Yellen would argue (see "On Yellen at Jackson Hole" August 22, 2014).
- In August the number of long-term unemployed fell by an impressive 194,000. This is only partially explained by the 91,000 increase in drop-outs from the trend level of the labor force.
- *For the jobs market in the Not So Great Recovery from the Great Recession, this is the key metric -- and it is still getting better.*

In addition, most of the internals we look at improved in August (see "Data Insights: Jobs September 5, 2014).

- The "outflow rate" -- the probability that a given unemployed person will get a new job within a month -- rose to 30.5%, its second highest level seen in the recovery from the Great Recession.
- Average hourly and weekly earnings both rose at a 3% annual rate.
- Overall hours work pushed out to new all-time highs.

Macro data over the last several weeks has been decidedly mixed. Overall we have to add this jobs report to the negative side of the ledger, along with retail sales. However, we note that the macro data we find to have the highest predictive value -- forward-looking survey-based data -- is unanimously quite positive.

- Orders for non-defense capital goods ex-aircraft -- the roots of the tree of innovation -- was virtually unchanged this month on the back of an upward revision in the prior month that moved it out strongly to all-time highs in nominal terms, and new cycle highs in real terms (please see the chart below).

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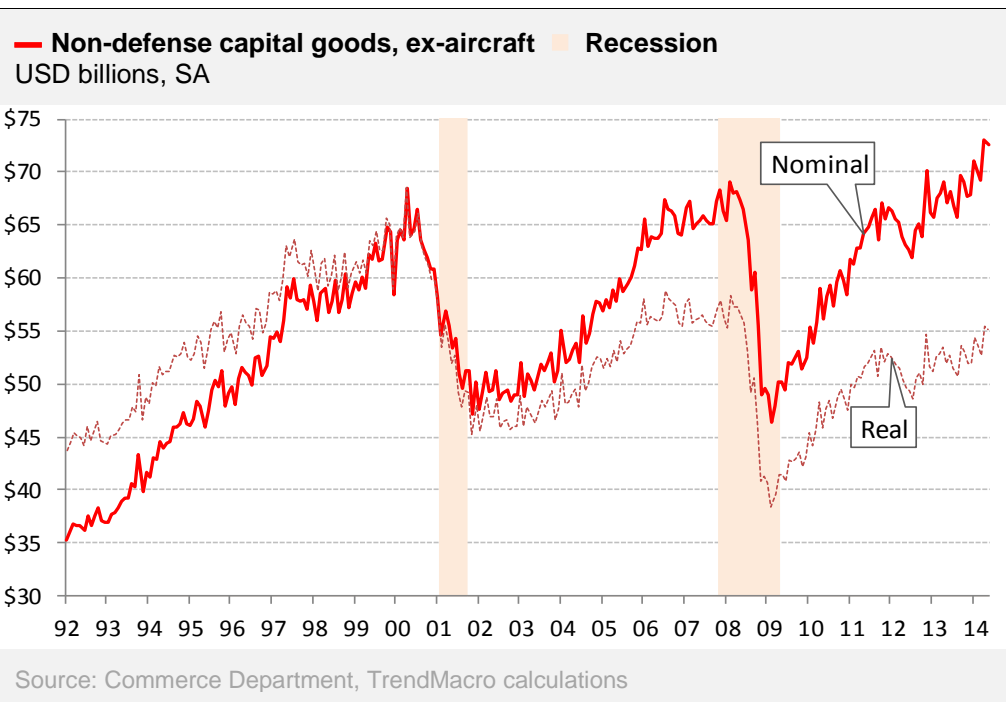
On the web at
trendmacro.com

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]

Non-defense capital goods, ex-aircraft ▬ **Recession** ▬
USD billions, SA

Source: Commerce Department, TrendMacro calculations

- ISM purchasing manager indices for August -- both manufacturing and services -- broke out to highs not see since well before the Great Recession (see "Data Insights: Global PMI" September 4, 2014). The employment components made highs not seen since 2010.
- And as clients are no doubt tired of hearing us say over and over -- our single favorite growth indicator, the rate of upgrades of forward earnings estimates for the S&P 500, has since March accelerated to levels associated with vigorous business cycle expansions of the past (see, among many, "Earnings to the Rescue" May 12, 2014).

All in all, we are inclined to take this disappointing jobs report as a bump in the road, not changing our overall sense that the economy is now beginning to recover more rapidly than it has so far throughout this Not So Great Recovery following the Great Recession.

Bottom line

A disappointing jobs report, breaking the momentum of the recovery from the harsh winter. Short-term unemployment has now risen for two months in a row, demonstrating how close that population is to full employment. But long-term employment -- the key metric in this jobs market -- continued to fall, only partially explained by a small increase in the number of drop-outs from the labor force. Hours worked made new highs; the probability of getting a job within a given month improved; hourly and weekly earnings grew smartly. In a month of very mixed macro data, this is a negative datapoint -- but we're inclined to see it as an anomaly, preferring to give credence to forward-looking macro indicators that have reported very positive this month.