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TRENDMACRO LIVE!

On the January Jobs Report

Friday, February 6, 2015

Donald Luskin

Median real household income is surging, and workers have stopped dropping out.

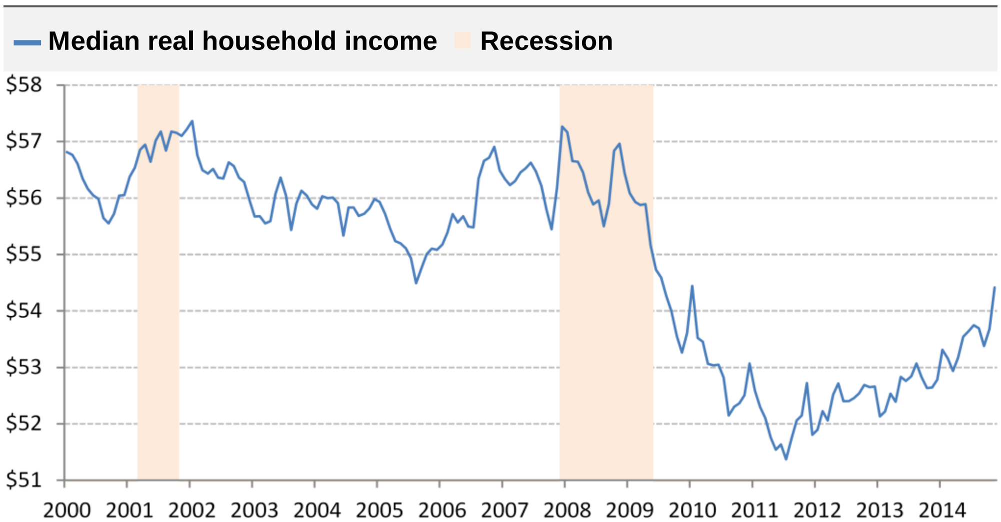
This morning's Employment Situation report with 257,000 net nonfarm payroll growth was a huge beat versus consensus expectations of 228,000. With Wednesday's beat in the non-manufacturing ISM purchasing managers index (see "Data Insights: Global PMI" February 4, 2015), this makes the second beat in a row after a slew of disappointing US macro data (see "On Q4 2014 GDP" January 30, 2015).

- January's big beat comes on top of upward revisions of 245,000 nonfarm payrolls across 2014, as part of the Bureau of Labor Statistics' annual "benchmarking" procedure. *The good news is that the US had a quarter million more payrolls than we thought.*
- Of particular interest to Fed-watchers is the 0.5% jump in average hourly earnings (see "Data Insights: Jobs" February 6, 2015). Supposedly this is the last piece to fall into place to allow the FOMC to go ahead and implement "liftoff" from the zero policy rate.
- But this is good news that has been developing for some time, hidden in the internals of BLS data -- and it's all the more powerful in tandem with falling inflation, thanks to falling oil prices (please see the chart below). Median real household income, drawn from unpublished data in the questionnaire underlying the BLS Household Survey, captures more than just the average hourly

Update to strategic view

US MACRO, US FED: An outstanding jobs report, on top of a year's worth of revisions that turned up 245,000 payrolls we didn't know we had. The Fed's "liftoff" plans for June are bolstered by a 0.5% jump in average hourly earnings. That jump confirms a large December jump in median real household income, helped along by falling inflation. The growth in the labor force by 1.051 million is to some extent a statistical artifact of an annual re-estimation process. But the new higher level of the labor force shows a decisive reversal of the era of workers dropping out.

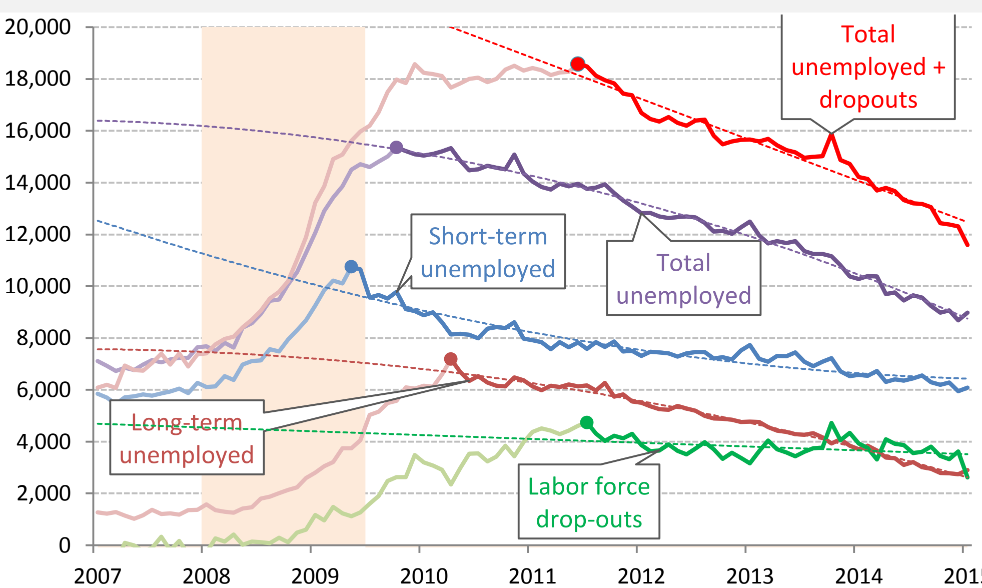
[Strategy Dashboard home]



Source: BLS via Sentier Research, TrendMacro calculations wage -- it captures the actual income of households, which contain multiple members with different jobs, and different numbers of hours worked including multiple jobs held by single individuals. And it is adjusted for inflation.

- The underlying data for January isn't available for analysis yet, but December's data (again, see the chart on the previous page) showed the largest jump in median real household income since its trough, which lagged the official recession trough by two years.
- *To be sure, median real income is not yet even back all the way to its recession trough level. But if the mission of such data is to inform intuitions about the direction and speed of economic change, we should be very encouraged by this.*
- *Whether the Fed looks at average hourly earnings -- or at median real household income -- either way now, the path is becoming very clear for "liftoff" at the June FOMC.*

At the same time, the reported jump in the civilian labor force of 1.051 million strongly points to the reversal of a long era of workers dropping out (please see the green line at the bottom of the chart below).



Source: BLS, TrendMacro calculations

- The reported change of 1.051 million is probably too optimistic, reflecting to some extent the annual re-estimation of the US population done each January for the BLS's Household Survey. Prior year's data is not revised, so change-figures reported in January are notoriously unreliable.
- But *changes* aside, the reported *level* represents BLS's best current estimate.
- Of the 1.051 million new entrants to the labor force -- taking the change-figure at face value for this analysis -- 759,000 are employed, and 291,000 are not. That's responsible for the uptick in the unemployment rate from 5.6% to 5.7%.

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Bottom line

An outstanding jobs report, on top of a year's worth of revisions that turned up 245,000 payrolls we didn't know we had. The Fed's "liftoff" plans for June are bolstered by a 0.5% jump in average hourly earnings. That jump confirms a large December jump in median real household income, helped along by falling inflation. The growth in the labor force by 1.051 million is to some extent a statistical artifact of an annual re-estimation process. But the new higher level of the labor force shows a decisive reversal of the era of workers dropping out.