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TRENDMACRO LIVE!

On the February Jobs Report

Friday, March 6, 2015

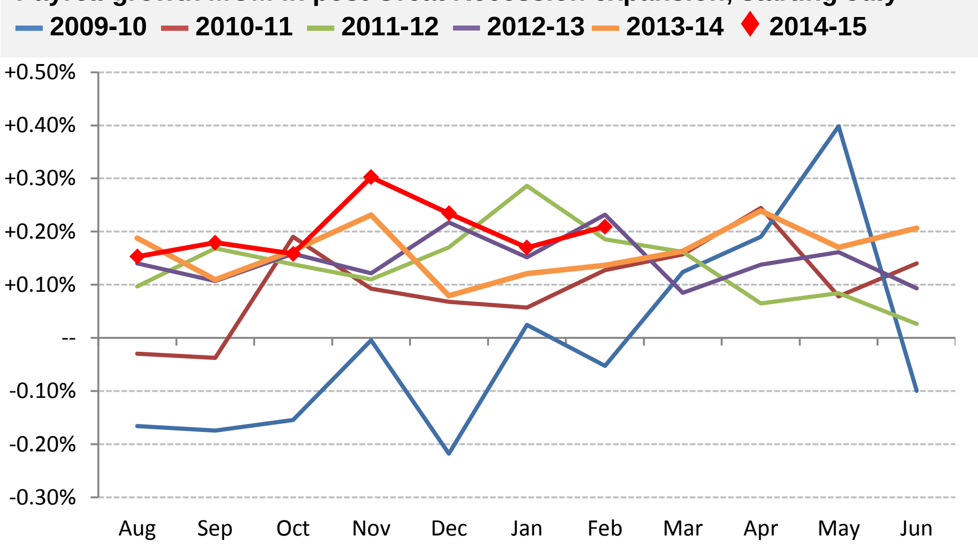
Donald Luskin

Neither sleet nor snow in Boston nor layoffs in Houston can slow down this labor market.

This morning's Employment Situation report with a gain of 295,000 net payrolls was a big upside surprise versus the consensus of 235,000 -- despite a downward revision of last month's data (see "On the January Jobs Report" February 6, 2015).

- This was the second-best February for the payroll growth-rate since the official end of the Great Recession (please see the chart below). Five and a half years into this business cycle expansion, it's easy to expect payroll growth to slow down -- but so far it hasn't. That's what happens when, five and a half years in, you have a remaining output gap that looks more, by historical standards, like a recession trough than a mature recovery.

Payroll growth MOM in post Great Recession expansion, starting July



Source: BLS, TrendMacro calculations

- The unusually snowy winter that has crippled Boston and New York didn't seem to make any difference, either. Unemployment due to weather in February was reported as exactly on the historical average (please see the chart on the following page).
- Jobless claims have been rising over the last month. That didn't seem to affect the payroll numbers in the Establishment Survey,

Update to strategic view

US MACRO, US FED: Another strong jobs report, the second best for a February since the official end of the Great Recession. The labor market is strong enough to shake off a winter that has crippled Boston and New York, and possible transmitted distress from the energy sector. The new cycle low in the unemployment rate moves the Taylor Rule funds rate to a new high of 4.13%, hastening the day of fed "liftoff" -- thus the "good news is bad news" reaction immediately in stock and bond markets. But February's disappointing rise in average hourly earnings gives Yellen the option to be more "patient" if she wants to be. We still call for "liftoff" at the June FOMC.

[Strategy Dashboard home]

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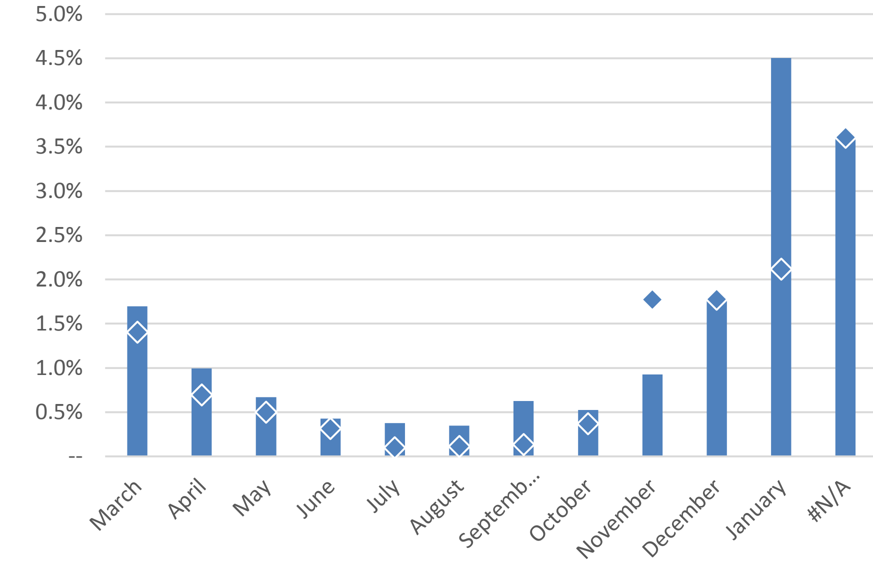
■ **Share of unemployment due to weather, average from 1976** ◆ **Latest**



Source: BLS, TrendMacro calculations

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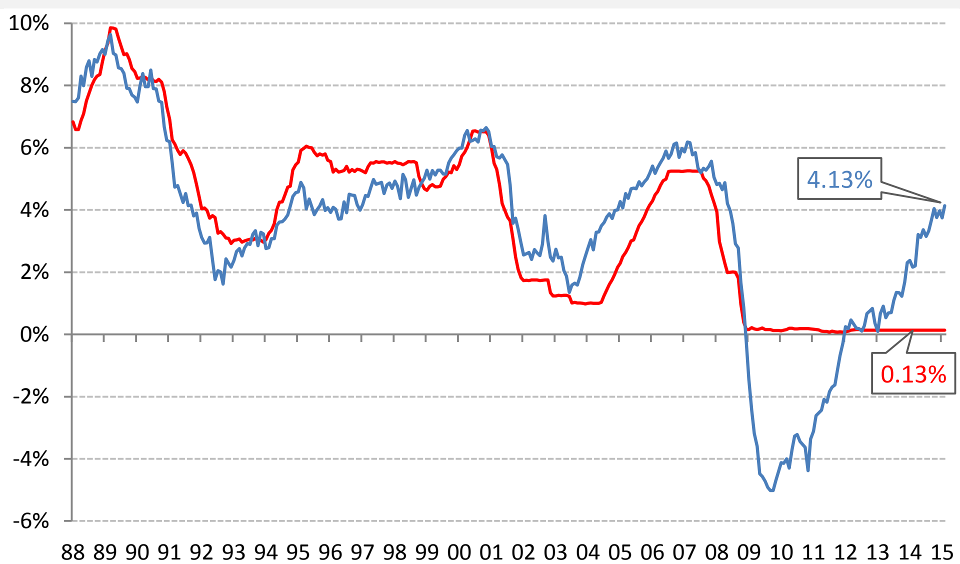
but perhaps it is seen in the data in the Household Survey. That alternate methodology reported 96,000 new employed persons, but only a contraction of 274,000 unemployment persons -- implying that 178,000 persons left the labor force, all of them unemployed. This explains the drop in the unemployment rate from 5.7% to 5.5%, a new cycle low (see "Data Insights: Jobs" March 6, 2015).

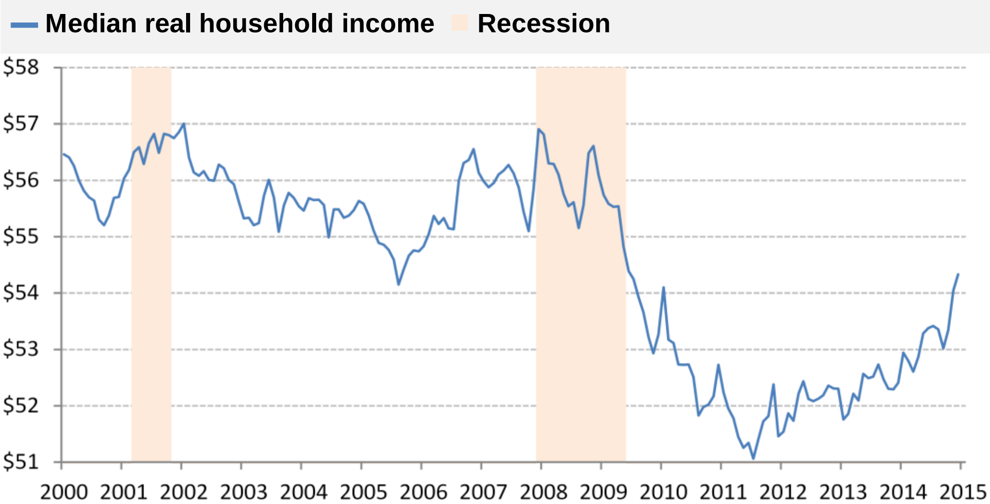
- Plugging this new cycle low for unemployment into Fed Chair Janet Yellen's favored version of the Taylor Rule -- even with core PCE inflation at only 1.3% year-over-year -- produces a funds rate of 4.13%, a new cycle high (please see the chart below).

Taylor Rule fed funds rate (per Rudebusch 2009) **Actual**



Source: BLS, BEA, SFFREB, TrendMacro calculations

- Thus the immediate reaction in markets this morning -- a classic "good news is bad news" response, assuming that this new evidence of labor market strength keeps the Fed on track for "liftoff" from the zero funds rate bound at mid-year. Stocks weakened, while long-term Treasury yields backed up to new recovery highs -- entirely due to a reappraisal higher in real TIPS yields, which we think purely impounds new information about Fed policy, while there was no change in inflation premia.
- But Yellen can still keep her mystery, as it were, as one disappointing element in this morning's jobs numbers was the 0.1% rise in average hourly earnings, versus consensus of 0.2%. If our data-dependent Fed chair wants to not lift off, this can be her excuse to be more "patient."
- That said, last month's monster jump of 0.5% was not revised this morning. And expressed in terms of median household incomes, that continues an accelerating trend of belated recovery from post-recession lows (please see the chart below).



Source: BLS via Sentier Research, TrendMacro calculations

- We have been concerned that distress in the energy sector will radiate out to the rest of the economy. This morning's jobs numbers don't show much of any of that. The US energy sector is not itself a very large employer. The oil and gas extraction subsector now employs 198,300 persons, down 1,100 on the month. Pipeline transport employment, at 47,800, increased by 400. The visible pain so far has been in the larger pipeline construction sector. The numbers for February haven't been reported yet, but in January that subsector employed 174,400, down 18,500 on the month. Incidentally, that's yet another reason for green-lighting the Keystone XL pipeline (see "Keystone is Key to Low Oil Prices" February 2, 2015).

Bottom line

Another strong jobs report, the second best for a February since the official end of the Great Recession. The labor market is strong enough to shake off a winter that has crippled Boston and New York, and possible transmitted distress from the energy sector. The new cycle low in the unemployment rate moves the Taylor Rule funds rate to a new high of 4.13%, hastening the day of fed "liftoff" -- thus the "good news is bad news" reaction immediately in stock and bond markets. But February's disappointing rise in average hourly earnings gives Yellen the option to be more "patient" if she wants to be. We still call for "liftoff" at the June FOMC.