Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 8, 2015

Donald Luskin

We crawl into Yellen's decision-averse mind to see numbers that don't clear the liftoff hurdle.

This morning's Employment Situation report slightly missed headline expectations, with 223,000 net payroll gains versus consensus 228,000.

Let's look at the report through the eyes of Fed Chair Janet Yellen. First, what's her mind-set coming in to this morning's data?

- *We assume that, like most bureaucrats -- indeed, like most people -- Yellen is decision-averse, and will require that the jobs data clear a very high hurdle in demonstrating labor market recovery before she will risk committing to "liftoff".*
- She needs to be sure. In this most disappointing Not So Great Expansion following the Great Recession, she doesn't want to go into the history books as another Fed chair who tightened too soon.
- *And when she presses the button for liftoff, there will be special risks.* The Fed has never had such a large balance sheet, funded by excess reserves upon which it is paying interest. And the Fed has never had a reverse repo facility accessible by non-banks. While the Fed may brag that it has the tools to normalize policy, the uncomfortable truth is that none of these tools has actually been tested in the field under combat conditions.
- *At the same time, the Fed is under intense lobbying by the banking industry to do nothing.* The banks hate the idea of the Fed competing for funding resources through the reverse repo facility. And having now adapted to life at the zero bound, the survivors who have learned to thrive under that regime are fanning fears that terribly illiquid bond markets will rupture under the stress of liftoff.

With that forming the backdrop in her mind, how will Yellen view this morning's employment report?

- *Yellen will probably note that the miss versus consensus expectations was actually deeper than the headlines imply. Payrolls for March -- already a terrible month for jobs growth -- were downwardly revised by 41,000* (see "Data Insights: Jobs" May 8, 2015).

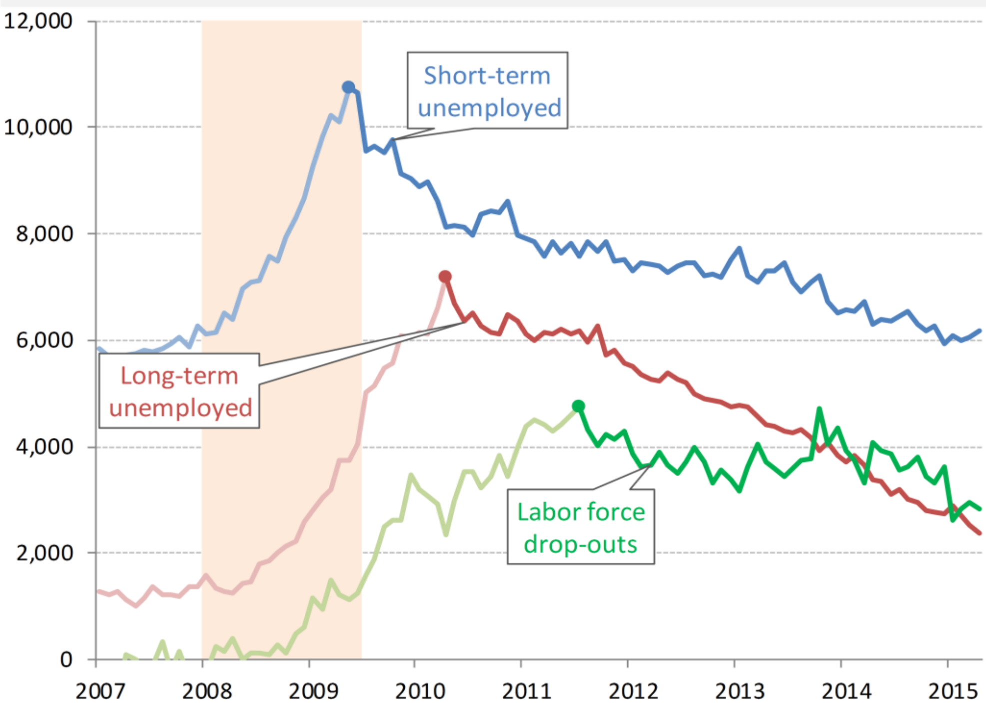
Update to strategic view

US MACRO, US FED: This morning's payroll numbers were a big miss, considering that March's already miserable gains were revised sharply lower. Hourly earning's growth was anemic, slightly lower than last month's. The number of short-term unemployed persons rose, while the number of long-term unemployed persons fell. Oil is stabilizing at the high end of the trading range we predicted for year; while that will take the edge of seeming deflation, it gives no reason to think inflation will act as a binding constraint on accommodative policy. We believe that Yellen will look at these datapoints and conclude there is no reason to rush to "liftoff," when it appears that there is still slack in the labor market and that present policy is still helping. Yellen will always be biased toward waiting, facing a risky experiment of having to deploy entirely new policy tools, against the backdrop of intense lobbying from the banks to do nothing. Liftoff remains off the table for the June FOMC.

[Strategy Dashboard home]

- *Hourly earnings rose, but only by 0.1% -- down from March's not especially inspiring 0.2%.*
- *Those two facts, alone, are probably enough to keep liftoff off the table at the June FOMC meeting* (see "On the April FOMC and Q1-15 GDP" April 29, 2015).
- A ray of good news, on the other hand, was the drop in the unemployment rate by 2 bp to a new cycle low of 5.44%. This was achieved despite the influx of 166,000 persons to the labor force, lifting labor force participation to 62.8%.
- Looking deeper inside the dynamics of the labor force, in April the number of short-term unemployed persons (jobless for less than 27 weeks) rose by 122,000 (please see the chart below). This is the second monthly rise in a row. As we speculated last month, Yellen could see this as evidence that the US economy has hit "full employment" (see "On the March Jobs Report" April 3, 2015). That said, it would be odd for her to tighten policy in the face of a rising number of unemployed persons.
- Especially so, considering that in April the number of *long*-term unemployed persons (jobless *more* than 27 weeks) *decreased* for the third month in a row, while the number of drop-outs from the labor force has stabilized at cycle lows (again, please see the chart below). Surely Yellen wouldn't reverse policy now, while she can't help but conclude that it is still helping the most vulnerable among the unemployed.

Persons in and out of the labor force (thousands) **Recession**



Source: BLS, TrendMacro calculations

- *Looking beyond just these labor market considerations, Yellen will not be constrained by inflation from keeping present policy in place.* The oil price has been the key driver in inflation statistics (see "The

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

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.com

[About us]

Recommended Reading

Pollsters and pundits make the wrong call on UK election
Lionel Barber
Financial Times
May 8, 2015

The GOP's Health-Care Reckoning
Karl Rove
Wall Street Journal
May 7, 2015

Bankers and Regulators Voice Fears on Bond Market Volatility
Peter Eavis
New York Times
May 5, 2015

George Soros May Face a Monster Tax Bill
Miles Weiss
Bloomberg Business
April 30, 2015

[Reading home]

Deflation Hoax" January 8, 2015). Its rally this calendar year from below the bottom of our expected price range to right about the top of that range (see "Oilmageddon: The Sequel" January 15, 2015) will soon enough take the deflationary edge out of the price indices. But the longer-term leakage of secularly lower oil prices into all other elements of the consumption basket should help keep inflation from forcing Yellen's finger to press the liftoff button.

Bottom line

This morning's payroll numbers were a big miss, considering that March's already miserable gains were revised sharply lower. Hourly earning's growth was anemic, slightly lower than last month's. The number of short-term unemployed persons rose, while the number of long-term unemployed persons fell. Oil is stabilizing at the high end of the trading range we predicted for year; while that will take the edge of seeming deflation, it gives no reason to think inflation will act as a binding constraint on accommodative policy. We believe that Yellen will look at these datapoints and conclude there is no reason to rush to "liftoff," when it appears that there is still slack in the labor market and that present policy is still helping. Yellen will always be biased toward waiting, facing a risky experiment of having to deploy entirely new policy tools, against the backdrop of intense lobbying from the banks to do nothing. Liftoff remains off the table for the June FOMC.