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TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 4, 2015

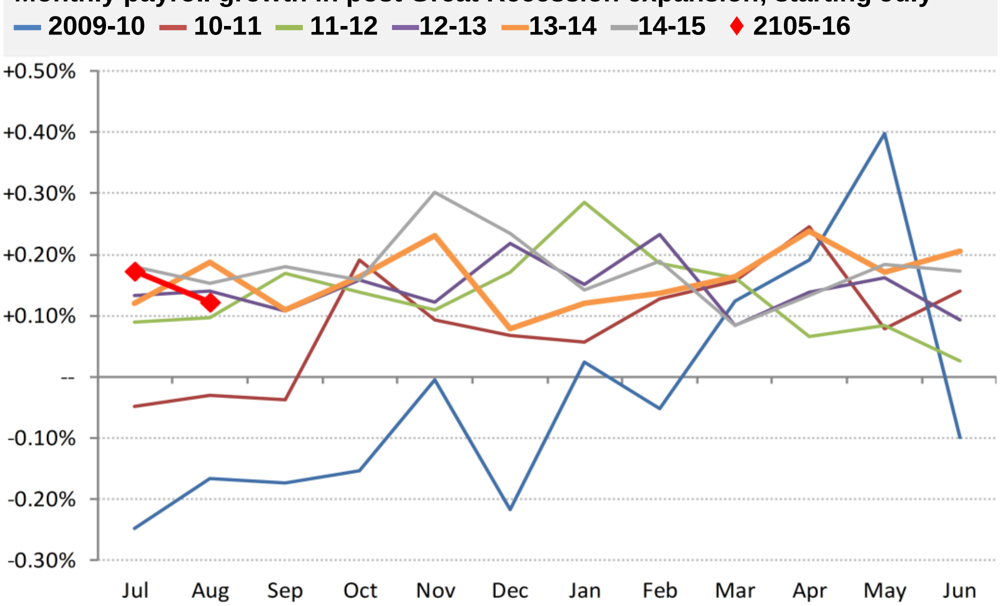
Donald Luskin

These numbers won't drive "liftoff." With no new ammo for hawks, the doves and chickens win.

We've never bought into the hoopla about how this morning's August Employment Situation report was supposed to determine whether the FOMC will "lift off" at the September meeting now less than two weeks away. The best we can say about it is that it's highly asymmetrical. If the FOMC weren't already going to do it anyway, there's no jobs number good enough to have changed its mind. But if the FOMC were pre-committed to "liftoff," a sufficiently awful number might have stayed them.

- *But this morning's number was not enough of a shock in either direction to have any chance of being dispositive.* The doves are still the doves and the hawks are still the hawks.
- *We think chair Janet Yellen, the only vote that really counts, is neither -- she's a chicken. There will be no September "liftoff" because she doesn't want to take the risk unless there is some very strong reason to take it. She didn't get that this morning.*
- Nor did vice chair Stanley Fischer give it to her at Jackson Hole by running up the white flag and confessing the Fed has no idea what

Monthly payroll growth in post Great Recession expansion, starting July



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: The big headline miss of 44,000 payrolls was perfectly offset by upward revisions of 44,000 -- but the fact remains that the labor force added a mere 173,000 payrolls in August, making the month an average one at best. We don't believe the hoopla that the Fed's decision to "lift off" at the FOMC meeting less than two weeks away was ever contingent on this morning's numbers. Surely nothing in today's garden-variety jobs report is going to change any FOMC member's mind. With so much slack remaining in the labor force and utterly no evidence of an inflation threat, we continue to think the FOMC will favor common sense and caution and forego "liftoff."

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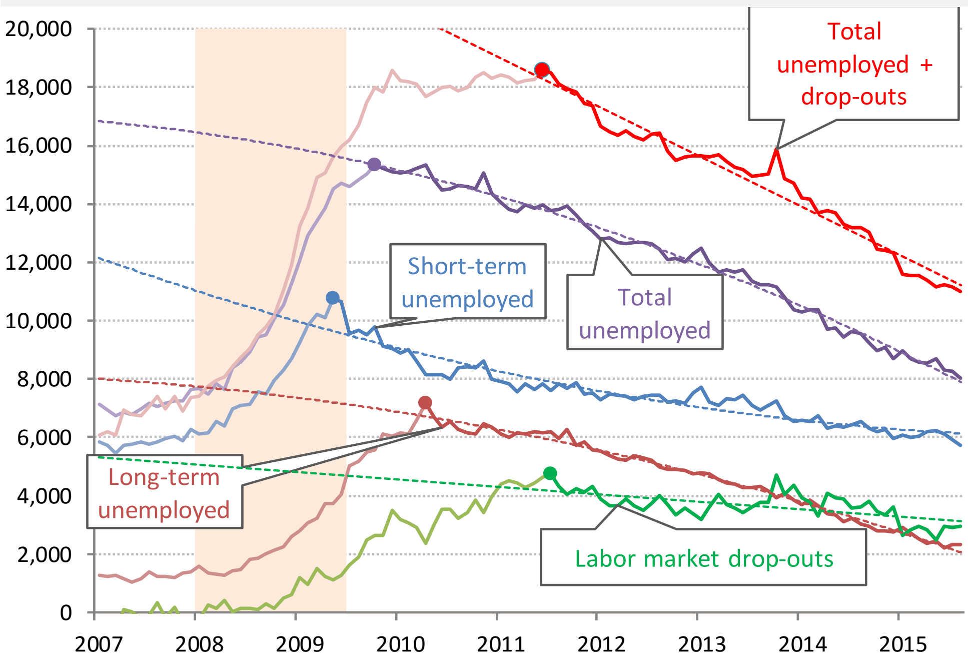
inflation is, but he kinda thinks it will get better because the Fed kinda expects it to (see "On Fischer at Jackson Hole" August 31, 2015).

This morning's reported net gain of 173,000 payroll jobs was a big miss of 44,000 versus the consensus -- but the prior two months were revised upward by a total of 44,000 (see "Data Insights: Jobs" September 4, 2015). If you believe the consensus takes potential upgrades into account (probably some participants in it do, others don't), then you could argue the number was right on expectations.

- But separating out the question of expectations, while the revisions positively affect the *level* of employment, but the August *change* in that level remains nevertheless a mere 173,000 jobs -- and that's not especially great. A way of putting *level* and *change* together is to track *percentage change* -- and by that metric, this was only an average August for the not-so-great expansion following the Great Recession (please see the chart on the previous page).
- *A hawk could look at this chart and say it indicates we are at full employment.* By one measure, we are. At 5.17 million, the number of short-term unemployed persons (unemployed for less than 27 weeks) is 552,000 lower than at the December 2007 peak of the prior business cycle, and only 264,000 short of tying the prior cycle low (please see the blue line in the chart below).
- *But a dove would say we are far from full employment.* The number of long-term unemployed persons (greater than 27 weeks) barely budged in August, having risen sharply in July (see "On the July Jobs Report" August 7, 2015). It stands at 2.3 million, still

Unemployment and drop-outs — Level • Peak ···Trend from peak
SA, thousands Underemployment = labor force vs 20-year trend **Recession**



Source: Bureau of Labor Statistics, NBER, TrendMacro calculations

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Financial Times
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936,000 greater than in December 2007, and 1.3 greater than at the prior cycle low (please see the brown line in the chart on the previous page).

- *And the doves have more ammunition.* Both categories of unemployment are worse than they seem given that the labor force participation rate is scraping cycle lows, indeed lows not seen since 1977. Taking into account the number of drop-outs from the labor force (trend-adjusted) as well as the *official* number of unemployed, the *true* number of unemployed is in fact 3.6 million greater than in December 2007, and 5.0 million greater than the prior cycle low (please see the red line in the chart on the previous page).
- To be sure, hawks and doves can have all kinds of fascinating arguments about how much of this underemployment is cyclical, and how much is structural. And then they can have even deeper arguments about whether that distinction even matters for monetary policy. But by the time you're having such arguments you've probably moved well past the consideration of relevant decision variables. *Surely the advantage is with the doves -- or at least the burden of proof is on the hawks.*
- All the more so given the complete absence of any inflation threat -- either in the statistics or in market expectations (again, see "On Fischer at Jackson Hole").

Bottom line

The big headline miss of 44,000 payrolls was perfectly offset by upward revisions of 44,000 -- but the fact remains that the labor force added a mere 173,000 payrolls in August, making the month an average one at best. We don't believe the hoopla that the Fed's decision to "lift off" at the FOMC meeting less than two weeks away was ever contingent on this morning's numbers. Surely nothing in today's garden-variety jobs report is going to change any FOMC member's mind. With so much slack remaining in the labor force and utterly no evidence of an inflation threat, we continue to think the FOMC will favor common sense and caution and forego "liftoff."