

TRENDMACRO LIVE!

On the November Jobs Report

Friday, December 4, 2015

Donald Luskin

With the ECB's move, enough to justify a "liftoff" mistake. But it could be "one and reversed."

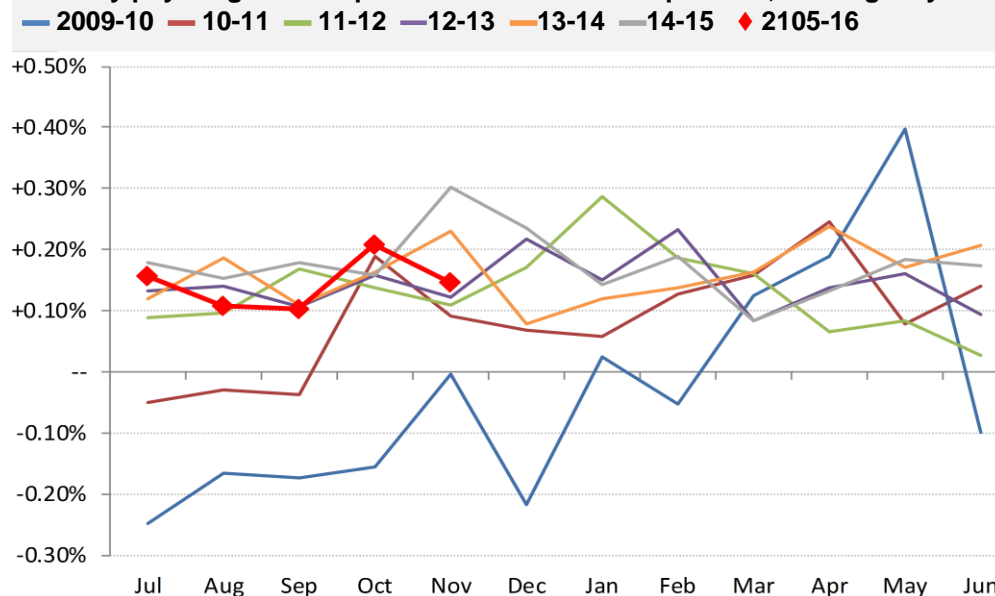
Before we delve into the jobs report, we must note yesterday's apparent tantrum following the European Central Bank's Governing Council meeting at which a more-negative deposit rate and extended QE was [announced](#). We don't particularly see why markets should have been ["disappointed"](#) by it, as the [media narrative](#) seems to have decided. We tend to see it more as a "sell on the news" event, typical of policy shifts that have been well signaled in advance, as ECB President Mario Draghi [made sure this one was](#).

- *You could even make the case that the tantrum was really about the Fed.*
- The fact that Draghi so faithfully followed through on his signaled promises suggests that Fed Chair Janet Yellen will follow through too at the FOMC meeting two weeks ahead.
- Yellen may even be fortified in her conviction by the increased expected liquidity to which the ECB has now committed, giving her scope to reduce expected liquidity herself. And if she was worried

Update to strategic view

US MACRO, US FED, EUROPE MACRO, ECB, FX: The "sell on the news" reaction yesterday to the ECB's easing package takes pressure off the dollar, and gives the Fed scope to use this morning's better than expected jobs number to justify "liftoff" in December. The jobs report wasn't really that strong. Short-term unemployment is rising while long-term unemployment is falling, because desperate unemployed are having to accept part-time work -- the number of part-time jobs has increased by more than 2 million over the last three months. "Liftoff" is a mistake, because as key Fed officials themselves admit, policy isn't really all that accommodative anymore anyway. Markets believe that a coming hiking regime will be gentle, only six hikes over three years. But we think "liftoff" might not only be "one and done," but "one and reversed," once the economy and markets make it clear what a blunder it was.

Monthly payroll growth in post Great Recession expansion, starting July



Source: BLS, TrendMacro calculations

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about ["lift off"](#) strengthening the dollar further, the seemingly perverse strengthening of the euro yesterday gave her some runway.

- *There is one element, though -- an important one -- that cuts the other way. Yesterday gave Yellen a taste of the kind of volatility she can expect at "liftoff," no matter how well she has signaled it. And she hasn't signaled it particularly well. All her [speechifying](#) and [testifying](#) this week have, on the one hand, made "liftoff" fairly certain -- but, on the other hand, she's actually provided very little real reasoning for it other than a rather fantastical Phillips Curve argument (see ["One Small Step -- In the Wrong Direction"](#) November 23, 2015).*
- *We saw in September that the Fed is not really "data dependent" -- but rather hostage to volatile markets that signal too much fragility to tolerate "lift off"* (see ["On the September FOMC"](#) September 17, 2015).

[This morning's November Employment Situation report](#) was a small headline beat with 211,000 payrolls versus 200,000 expected. More significantly positive was the substantial upward revision of [October's strong payroll gains](#) by an additional 27,000 (see ["On the October Jobs Report"](#) November 6, 2015), and [September's](#) by 8,000 (see ["On the August Jobs Report"](#) September 4, 2015).

- To be sure, a report like this morning's doesn't lend much support to our thesis that we are entering the first-ever recession caused by too-low oil prices (see, among many, ["Another 'Reverse Oil Shock'?"](#) Tuesday, July 28, 2015).
- That said, there has been no shortage of weak data that points the other way (see, for example, ["Data Insights: Global PMI"](#) December 3, 2015).
- *For that matter, this morning's payroll numbers were not entirely inspiring.*
- The month-over-month growth rate of payrolls is only middling for this business cycle recovery, below the pace of either of the two prior years' Novembers (please see the chart on the previous page).
- For those who want to pick recessionary nits, aggregate hours worked fell in November (see ["Data Insights: Jobs"](#) December 4, 2015).
- *The number of short-term unemployed persons (jobless for less than 27 weeks) increased by 87,000, the third straight monthly increase (please see the chart on the following page). Presumably these persons are those most easily re-employed -- perhaps they know the right programming languages. So it is a sign of internal weakening in the labor market that their number has been increasing.*
- If you want to put a rosy tint on that, you could cite this month's salutary 273,000 increase in the labor force -- the second month in a row -- which surely had to contribute to the number of short-term unemployed, but in a good way. This was sufficient to push up the

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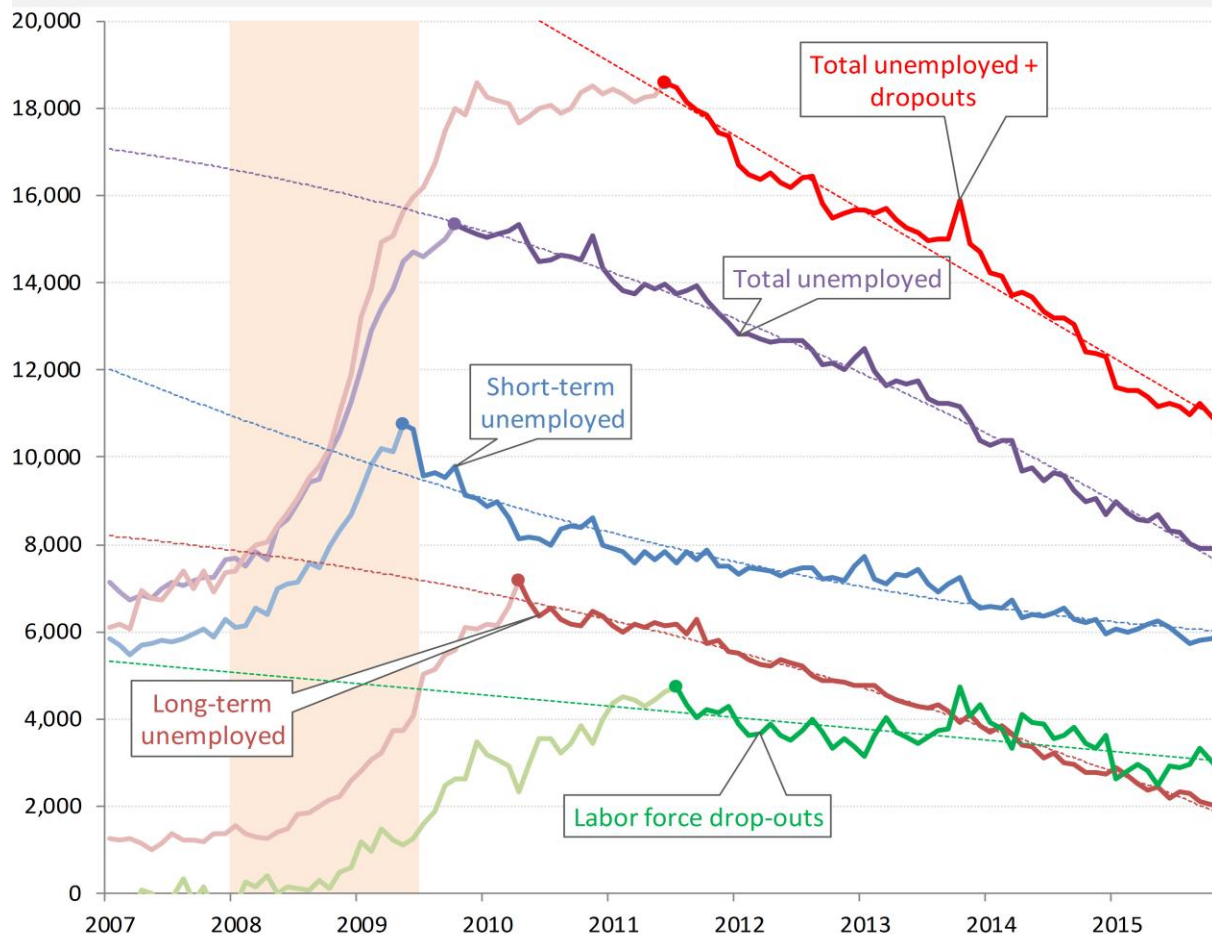
Recommended Reading

[America the Indispensable](#)
Rupert Murdoch
Wall Street Journal
December 2, 2015

[Imagining a World Without Growth](#)
Eduardo Porter
New York Times
December 1, 2015

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Persons in the US labor market, thousands



Source: BLS, TrendMacro calculations

labor force participation rate by 1% from cycle lows not seen since the mid-1970s.

- At the same time, the number of long-term unemployed persons fell by 54,000, the fourth monthly drop in a row. And the number of drop-outs from the labor force decreased by 248,000, the second monthly drop in a row.
- *Sadly, more than all of that is explained by the 620,000 rise in part-time employment in November -- the third monthly rise in a row, cumulatively totaling 2.06 million.*
- *When you put all this evidence together, it points to this: the long-term unemployed and those who had fallen out of the labor force are getting desperate and accepting part-time jobs. The most qualified workers, who have been unemployed for the shortest time and presumably insist on full-time work, are finding it harder to get work.*

As of this writing, only hours after the jobs data was released, markets don't seem to be troubled by it -- though it makes Fed "liftoff" virtually a certainty. That's as it should be. The report was mostly as-expected, and to the extent it was a small upside surprise, that surprise only confirms an as-

expected Fed policy move. Following the jobs report, implied "liftoff" probability in the fed funds futures market remained unchanged at 74%.

But we continue to believe that a December "liftoff" will be a mistake (again, see ["One Small Step -- In the Wrong Direction"](#)).

- *We continue to wonder why the Fed is in such a hurry. Yes, after seven years at the zero bound, "hurry" doesn't seem like the right word. But why "lift off" now?*
- Fed Governor Lael Brainard spoke what is in our minds this week when she said, in a [speech](#), "the fact that the U.S. economy is growing at a pace only modestly above potential while core inflation remains restrained suggests that the nominal neutral rate may not be far above the nominal federal funds rate."
- This is an echo of New York Fed President William Dudley's [remarks](#) last month: "current short-term real interest rates are not far below their neutral counterparts, suggesting that the current monetary policy stance is not exceptionally stimulative."
- *So they why, dear God why, should rates that are not stimulative to begin with be raised now? Does that not mean that, with any hike, rates would become contractionary?*
- At least markets seem to believe that, whatever the Fed does in December, its longer-term plans are quite mild. The curve now implies a funds rate three years out of only 1.68% -- that's only six rate hikes over 24 FOMC meetings.
- Markets, clearly, have accepted what Yellen has said from [her first FOMC statement as chair in March 2014](#): in a nutshell, when the economy is back to normal, the funds rate will stay below normal. Repeated verbatim at every Yellen FOMC meeting, and in both her [speech](#) and [congressional testimony](#) this week, her familiar 38 words are below, with the essence of the policy message called out in red.

The Committee currently anticipates that, even **after employment and inflation are near mandate-consistent levels**, economic conditions may, for some time, warrant **keeping the target federal funds rate below** levels the Committee views as **normal** in the longer run.

- *So there is a limit on how stupid this can get.*
- But we don't at all rule out a reaction in the economy and the markets like that which greeted the ECB's 25 bp rate hike in April 2011 -- which had to be quickly reversed, and then repaired by considerable easing by unconventional means both monetary and fiscal (see ["EUicide"](#) April 7, 2011).
- In other words, while a December hike is all but inevitable, we think there is a decent chance that, in its aftermath, it won't just be "one and done." It might be "one and reversed."

Bottom line

The "sell on the news" reaction yesterday to the ECB's easing package takes pressure off the dollar, and gives the Fed scope to use this morning's better than expected jobs number to justify "liftoff" in December. The jobs report wasn't really that strong. Short-term unemployment is rising while long-term unemployment is falling, because desperate unemployed are having to accept part-time work -- the number of part-time jobs has increased by more than 2 million over the last three months. "Liftoff" is a mistake, because as key Fed officials themselves admit, policy isn't really all that accommodative anymore anyway. Markets believe that a coming hiking regime will be gentle, only six hikes over three years. But we think "liftoff" might not only be "one and done," but "one and reversed," once the economy and markets make it clear what a blunder it was. ▶