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TRENDMACRO LIVE!

On the January Jobs Report

Friday, February 5, 2016

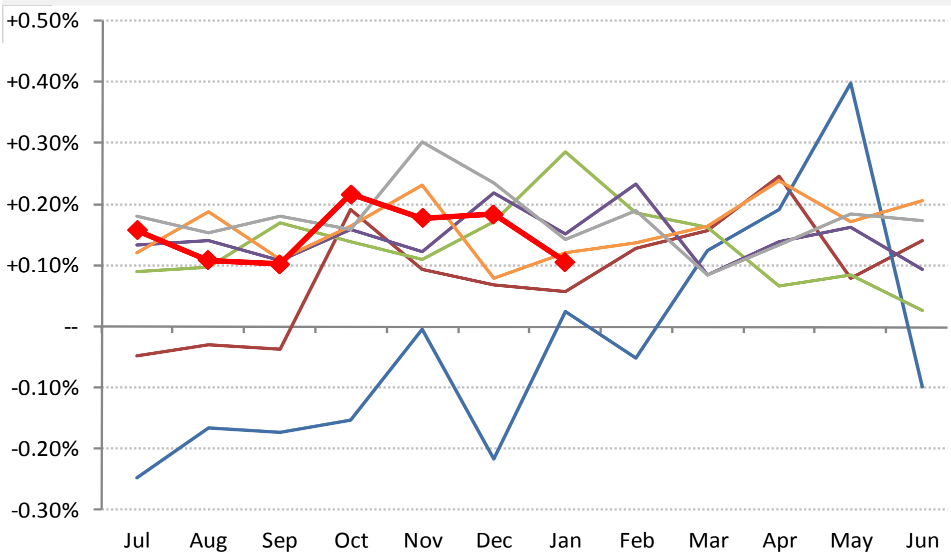
Donald Luskin

It's a big miss, and it points to recession. But it's really not as bad as it looks.

This morning's January Employment Situation report was a big miss, 151,000 net payrolls versus 190,000 expected. This was the labor market's second-weakest January since the end of the Great Recession (please see the chart below).

Monthly payroll growth in post Great Recession expansion, starting July

2009-10 10-11 11-12 12-13 13-14 14-15 2105-16



Source: BLS, TrendMacro calculations

You can't blame the weather – despite big storms across the northeast, the number of persons claiming joblessness due to weather was uncharacteristically *low* for a January (please see the chart at the top of the next page).

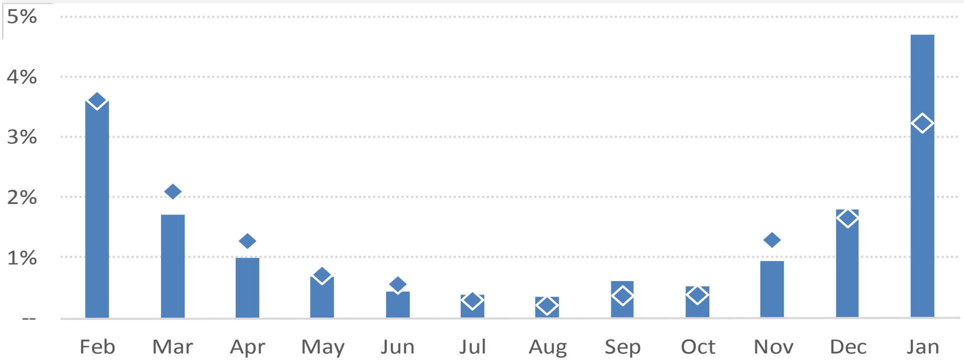
The large downward revisions of 105,000 payrolls for November and December are illusory, for most analytical purposes.

- The revisions are the result, in part, of the Bureau of Labor Statistics' annual benchmarking process, and updating of seasonal adjustment factors. These had the effect of lowering the total number of payrolls across all of 2015 by an average of 127,000.

Update to strategic view

US MACRO, US FED: A big miss, moving the labor market toward confirming that we are entering the first-ever recession caused by too-low oil prices, and nudging the Fed toward the dovish. The huge downward revisions to prior months are not as bad as they look – all of 2015 was revised lower in the annual re-benchmarking exercise. So November and December job gains actually remained strong, though the aggregate number of payrolls is lower than anyone knew. The downtick in the unemployment rate is only in small part due to annual recalibration of the "household survey." But that recalibration does take the froth out of seemingly excellent jumps in labor force participation and employment. With hourly earnings higher, the lower unemployment rate keeps this disappointing jobs report from being dispositive for the Fed. But at this point, with central banks world-wide beginning to panic, the market is right: no more rate hikes this year.

Share of unemployment due to weather ■ **Avg from 1976** ♦ **Latest month**



Source: BLS, TrendMacro calculations

- So the net gains for November can actually be seen properly as an *upward* revision of 28,000. Seen the same way, the net gains in December were downwardly revised by 40,000, but still came in at a very solid 252,000.
- The revised numbers, had they been known in real time, wouldn't have made any difference to the Fed's decision for "liftoff" at the December FOMC (see "On the December FOMC" December 16, 2015).
- *All that said, this morning's report was still a big miss. And though the revisions don't erase November's and December's gains, it is a fact that there were, on average, 127,000 fewer payrolls in 2015 than we knew.*
- All this points in the direction of confirming the deterioration in most macro data around the world (see, for example "Data Insights: Global PMI" February 3, 2016), and justifying the panic from central bankers in Europe, the UK, and Japan. Even the Fed is starting to ask some questions, however belated, with FRB Vice-Chair Stanley Fischer, Governor Lael Brainard and New York Fed President William Dudley making statements that start to move the FOMC's rhetorical center of gravity toward the dovish. *Meanwhile, markets have now priced out any additional rate hikes at all for this year.*
- And there's starting to be more and more agreement that we have been correct in our long-standing call for the first-ever recession caused by too-low oil prices.

But today's jobs data is not going to be dispositive for the Fed, at least to the extent that it chooses to remain hypnotized by the unemployment rate and earnings as leading indicators of resurgent inflation. The unemployment rate fell in January to a new cycle low of 4.9%, and average hourly earnings rose by 0.5%.

- On the face of it, the drop in the unemployment rate came from a healthy jump in both employment and labor force participation. 502,000 new persons entered the labor force, unemployment fell by 113,000, and employment rose by 615,000 (see "Data Insights: Jobs" February 5, 2016).
- But here, too, statistical artifacts have to be taken into account. The

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"household survey" from which these figures are derived is also recalibrated annually in January, based on new population estimates.

- This recalibration added 218,000 persons to the labor force, while increasing unemployment by only 12,000. This had the effect of lowering the unemployment rate slightly, but by less than one significant digit.
- That said, it explains away 40% of the seeming rise in labor force participation, and a third of the seeming job gains.

Bottom line

A big miss, moving the labor market toward confirming that we are entering the first-ever recession caused by too-low oil prices, and nudging the Fed toward the dovish. The huge downward revisions to prior months are not as bad as they look – all of 2015 was revised lower in the annual re-benchmarking exercise. So November and December job gains actually remained strong, though the aggregate number of payrolls is lower than anyone knew. The downtick in the unemployment rate is only in small part due to annual recalibration of the "household survey." But that recalibration does take the froth out of seemingly excellent jumps in labor force participation and employment. With hourly earnings higher, the lower unemployment rate keeps this disappointing jobs report from being dispositive for the Fed. But at this point, with central banks world-wide beginning to panic, the market is right: no more rate hikes this year.