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TRENDMACRO LIVE!

On the June Jobs Report

Friday, July 8, 2016

Donald Luskin

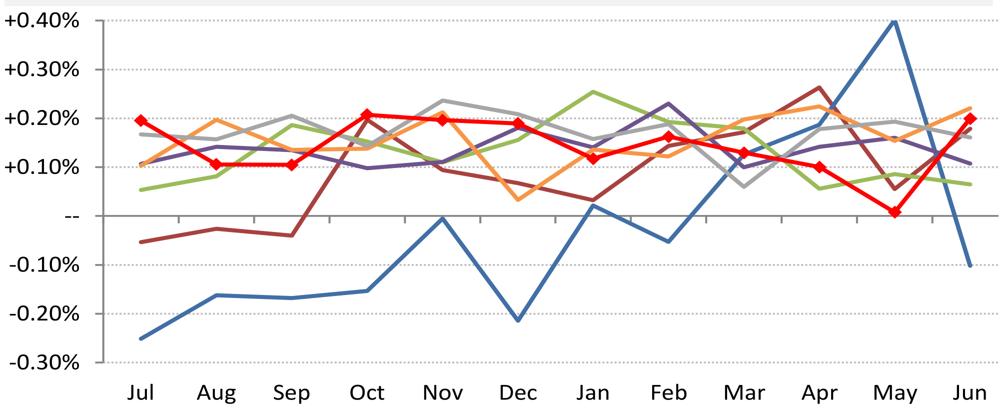
For a data-dependent Fed obsessed with uncertainty, data itself emerges as new source of it.

Now it's official. With this morning's June Employment Situation report, official US labor market numbers are completely out of control.

- In May, *unofficial* numbers (such as ADP, ISM and Challenger) had implied payroll gains of about 157,000. A bobble to be sure, but the Department of Labor reported a gain of only 38,000 on top of heavy downward revisions to prior months.
- For this morning, *unofficial* numbers implied 182,000 payrolls – better than May, but not wildly different. But the DOL made downward revisions to May's already out-of-pattern low number, and then reported a gain of 287,000 for June.
- By their own numbers, the gods must be crazy.
- In a single month, we are to believe that we have travelled from the worst May for the labor market since the end of the Great Recession, to a June that is pretty much tied for the best (please see the chart below).
- We suppose we should just average the two months – and remember to not be too worshipful of these quite obviously very noisy statistical estimates.
- As of this writing, that seems pretty much the markets' hot-take – in the grand scheme of things (and the scheme of things *has* been grand lately), there really hasn't been much of a reaction at all.

Monthly payroll growth in post Great Recession expansion, starting July

2009-10 10-11 11-12 12-13 13-14 14-15 2015-16



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: With downward revisions to an already anomalously bad May jobs report, the June report takes us back-to-back from the worst month since the end of the Great Recession to the best. Unofficial indicators of the labor market imply that the two months really weren't that different. This should dispel false fears from May's report that the US economy is slipping into recession, when in fact it is emerging from a two-quarter mini-recession. This will confirm the Fed's skepticism about last month's bad numbers, but only deepen its sense of uncertainty, now in the data itself – on top of the many unknown unknowns arising from Brexit. No rate hikes this year.

[Strategy dashboard]

- *But so much for all the worries a month ago, inspired by May's bad surprise, that the US economy was slipping into recession.*
- We reiterate now what we said then (see "On the May Jobs Report" June 3, 2016) – that the US economy was in a mini-recession in Q4-2015 and Q1-2016 due to a credit-shock and dollar-shock from crashing oil prices, and now with oil having durably bottomed in February, that mini-recession is over (see "Have We Suffered Enough?" February 26, 2016).
- We said then that the labor market lags – and now we can add that labor market statistics lie.
- Based on the minutes of the June FOMC meeting, the Fed doesn't seem to have been overly alarmed by May's bad jobs report. For "Almost all participants," it "increased their uncertainty about the outlook for the labor market." But "many" didn't want to "change their outlook materially based on one economic data release."
- The key word here is "uncertainty" – a catch-phrase for Fed Chair Janet Yellen since late March (see "Yellen Adds 'Uncertainty'" March 30, 2016).
- Obviously, Brexit adds material uncertainty to the global economic outlook that the Fed must consider – through its unknown impacts on growth, bank stability and FX relationships (see, among many recently, "Brexit Panic: It's The Italian Banks, Stupid" June 29, 2016).
- *Now, these two insane back-to-back jobs reports throw a bright light onto another form of uncertainty. For a data-dependent Fed, even the data itself is uncertain.*
- *We reiterate our long-standing expectations that there will be no more rate-hikes this year.*

Bottom line

With downward revisions to an already anomalously bad May jobs report, the June report takes us back-to-back from the worst month since the end of the Great Recession to the best. Unofficial indicators of the labor market imply that the two months really weren't that different. This should dispel false fears from May's report that the US economy is slipping into recession, when in fact it is emerging from a two-quarter mini-recession. This will confirm the Fed's skepticism about last month's bad numbers, but only deepen its sense of uncertainty, now in the data itself – on top of the many unknown unknowns arising from Brexit. No rate hikes this year.

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[About us]

Recommended Reading

Statement by FBI Director James B. Comey on the Investigation of Secretary Hillary Clinton's Use of a Personal E-Mail System
July 5, 2016

The Surprisingly Swift Decline of U.S. Manufacturing Employment
Justin R. Pierce and Peter K. Schott
American Economic Review
June 2016

Why did the Stars Wars and Star Trek worlds turn out so differently?
Tyler Cowen
Marginal Revolution
July 1, 2016

[Reading home]