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TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 2, 2016

Donald Luskin

This wasn't Yellen's "solid performance" – yet fears of a September hike just won't die.

This morning's August Employment Situation report was a miss with 151,000 net payrolls versus 180,000 consensus. For what it's worth, this is the sixth August in a row in which payrolls have missed.

- This particular miss might be due to the fact that there were virtually no net revisions to the inexplicably strong June and July reports (see "On the July Jobs Report" August 5, 2016 and "On the June Jobs Report" July 8, 2016). The consensus might have reasonably expected downward revisions to both, against which it would have had to estimate a larger month-over-month August net gain.
- *That takes some of the shine off the market's first-blush conclusion that this morning's miss definitively takes the September FOMC off the table for a rate hike.*
- *Before this morning's data was released, the futures-implied probability of a September hike was 36%. In the immediate aftermath, it fell as low as 20%. Now as of this writing a couple hours later, it's back to 32%. Does this new data really make so little difference for a supposedly "data dependent" Fed?*
- Consensus expectations aside, by any objective standard this morning's report fell far short of the "continued solid performance" that Fed Chair Janet Yellen said in her Jackson Hole speech last week that she was looking for to show that "the case for an increase in the federal funds rate has strengthened" (see "On Yellen at Jackson Hole" August 26, 2016).
- *"Solid"? Not -- especially in the terms the Fed cares most about.* Average hourly earnings rose only an anemic 0.1%. *At the same time, aggregate hours-worked fell by 0.2%, so aggregate earnings – the earnings stat that any true-blue Phillips Curve believer ought really to be following – contracted by 0.1%. There's no "overheating" or "wage pressure" here. None.*
- According to the Bureau of Labor Statistics' household survey, net employment gains were only 97,000. When adjusted for the differing methodological basis used in the more frequently cited payroll survey, it was a net loss of 128,000 jobs.
- 32% is still a minority probability for a hike (and we still don't think the Fed will do it in September – see, most recently, "On Yellen at Jackson Hole"). But this resiliency of expectations that they *just*

Update to strategic view

US MACRO, US FED: A big miss in net payrolls, with virtually no net revisions to the last two inexplicably strong months. This was not the "solid performance" that Yellen says she is looking for. Growth in hourly wages was only 0.1%, and aggregate wages contracted by 0.1%. On a "payroll basis," the household survey showed a loss of 128,000 jobs. Yet market-implied expectations for a rate hike at the September FOMC, after a big initial dip, have recovered to nearly unchanged at a 32% probability. Objectively there is no way to argue that there isn't a great deal of slack in the labor market, but the Fed's continued exaggerations about its strength keep rate hike fears alive in the markets. We continue to say no hike in September.

[Strategy dashboard]

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might reflects the market's fear of the Fed's seeming obsession with it – supported by constant exaggerations about the health of the labor market.

- A must-read op-ed in the *Wall Street Journal* this morning shames Fed vice chair Stanley Fischer for saying in a speech two weeks ago that "I believe it is a remarkable, and perhaps underappreciated, achievement that the economy has returned to near-full employment in a relatively short time after the Great Recession…"
- The reality is that it took 76 months for gross payrolls to return to the prior-cycle level (which is not to say that level would be "full employment," as the population grew considerably over that time). Those 76 months made for by far the longest wait in history, 61% longer than the previous record-holder.
- To cut Fischer just a little bit of slack, he went on to qualify his statement as applying to "the historical experience following a financial crisis." But really – is he setting the bar at the Great Depression? That's a low bar.
- The idea that the US economy is at "full employment" is pretty much a joke, in our view. Sure, the low unemployment rate – which this morning remained unchanged at 4.9% – would seem to be in the neighborhood. But everyone other than the Fed is aware that this "headline" measure of unemployment misses the high share of involuntary part-time workers and those only "marginally attached" to the labor force. When you include them, as the BLS's "U-6" unemployment rate does, this reveals unemployment at 9.7%, pretty much the highest in the history of the data other than during the Great Recession.

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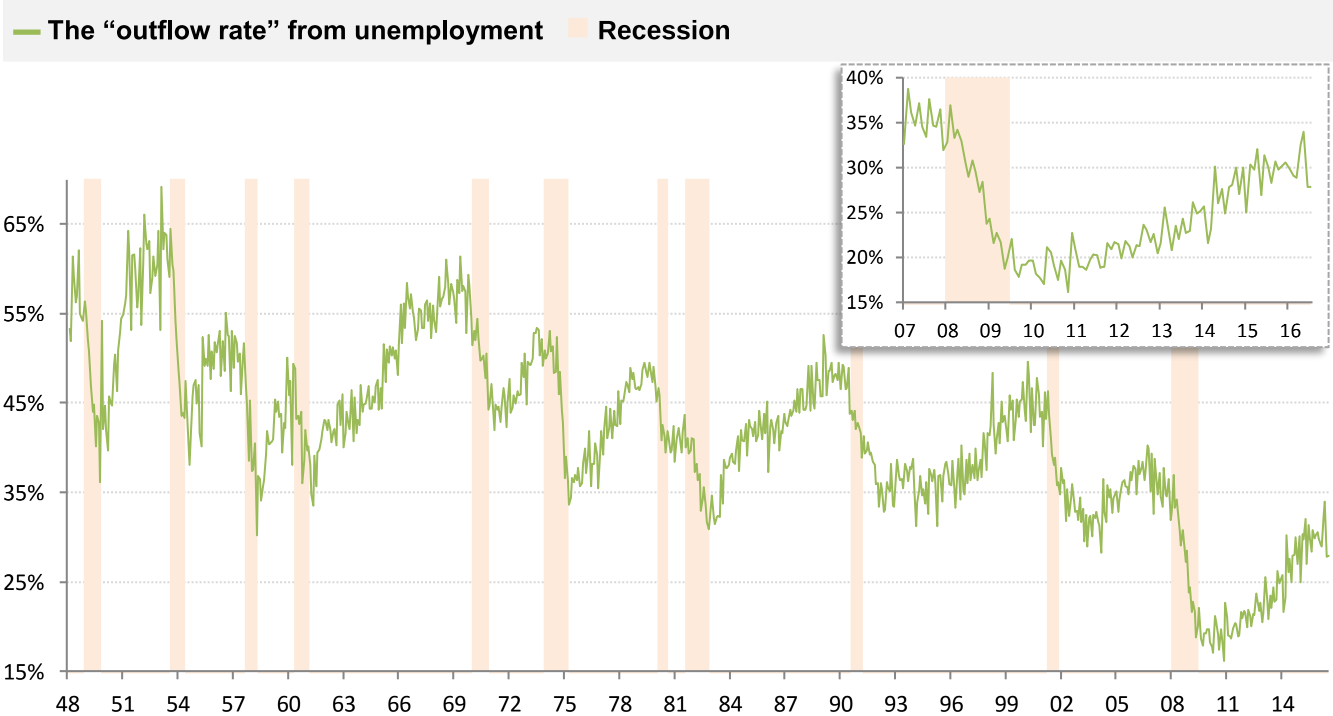

Source: Shimer (2005), TrendMacro calculations

- Even within the statistical universe of the headline figures, there is strong evidence that the labor market still has a great deal of slack. A tight labor market is one in which employers bid against each other to snap up scarce labor resources, driving wage-costs higher. In such an environment, any unemployed person can easily and quickly get a job, even if he is underqualified for it. He can get trained on the job, and he's offered a rich incentive to try.
- Yet today, only 28.5% of unemployed persons can find work within a month. This "outflow rate" from unemployment has improved from all-time lows at the worst of the aftermath of the Great Recession, but has now only recovered to a level equal to what had previously been the worst in the history of the data (please see the chart on the previous page).
- When so few unemployed persons can quickly find work, the labor market is far from tight. We don't believe the Phillips Curve doctrine that a tight labor market leads to inflation anyway, but even if we did, we wouldn't remotely worry about it now – the labor market is manifestly not tight. Oh, and did we mention that long-term steady-state inflation expectations here and around the world are at or near the lowest in the history of the data?

Bottom line

A big miss in net payrolls, with virtually no net revisions to the last two inexplicably strong months. This was not the "solid performance" that Yellen says she is looking for. Growth in hourly wages was only 0.1%, and aggregate wages contracted by 0.1%. On a "payroll basis," the household survey showed a loss of 128,000 jobs. Yet market-implied expectations for a rate hike at the September FOMC, after a big initial dip, have recovered to nearly unchanged at a 32% probability. Objectively there is no way to argue that there isn't a great deal of slack in the labor market, but the Fed's continued exaggerations about its strength keep rate hike fears alive in the markets. We continue to say no hike in September.

Recommended Reading

The Idle Army: America's Unworking Men
Nicholas Eberstadt
Wall Street Journal
September 2, 2016

An Interesting SETI Candidate in Hercules
Paul Gilster
Centauri Dreams
August 27, 2016

Excel Created Major Typos in 20 Percent of Scientific Papers on Genes
Laura Wagner
Slate
August 24, 2016

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