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TRENDMACRO LIVE!

On the February Jobs Report

Friday, March 10, 2017

Donald Luskin

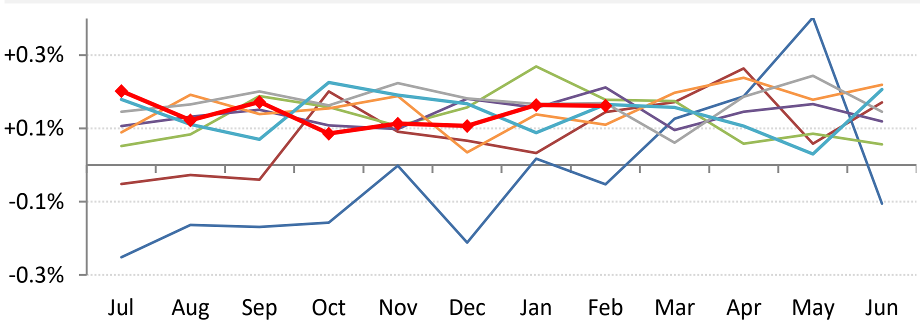
A beat versus consensus, but a miss versus the Trump tweet-number.

This morning's February Employment Situation report with 236,000 net new payrolls was a big beat versus expectations for 200,000 – all the more so with a net upward revision of 9,000 to the prior two months.

- Judging from the immediate bond market reaction – as of this writing, the US 10-year yield is down about 3 bp from the report's release – *this was something of a miss versus the whisper-number.*
- *Or in this case, the "Trump tweet-number"* – with the president having tweeted, on Wednesday, that the ADP report showing 298,000 net payrolls was evidence of #MAGA.
- Actually, our model – which combines ADP payrolls with other high-frequency labor market indicators – predicted 235,000 payrolls. So the report, just 1,000 off, shouldn't have surprised anyone.
- It was sufficient for Trump to do a victory lap immediately after the release, re-tweeting the Drudge Report simply saying "GREAT AGAIN."

- *Political posturing and associated confirmation-bias aside, on the*

Monthly payroll growth in post Great Recession expansion, starting July
—2009-10 —10-11 —11-12 —12-13 —13-14 —14-15 —15-16 ♦ 2016-17



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: A headline beat, but probably a small miss versus the whisper-number and the "Trump tweet-number." On the surface, this is a middle-of-the-pack jobs report. That said, seven years into the expansion, having payroll growth still strong – and wage growth still modest – implies that there is still lots of slack in the labor force. For the first month we can remember, job growth was evenly distributed across wage-levels – that is, no bias toward lower-paying sectors. With the Fed committed to gradual rate hikes tracking the gradually rising "natural rate of interest," and "animal spirits" set loose since the election, we think the present expansion has room to run.

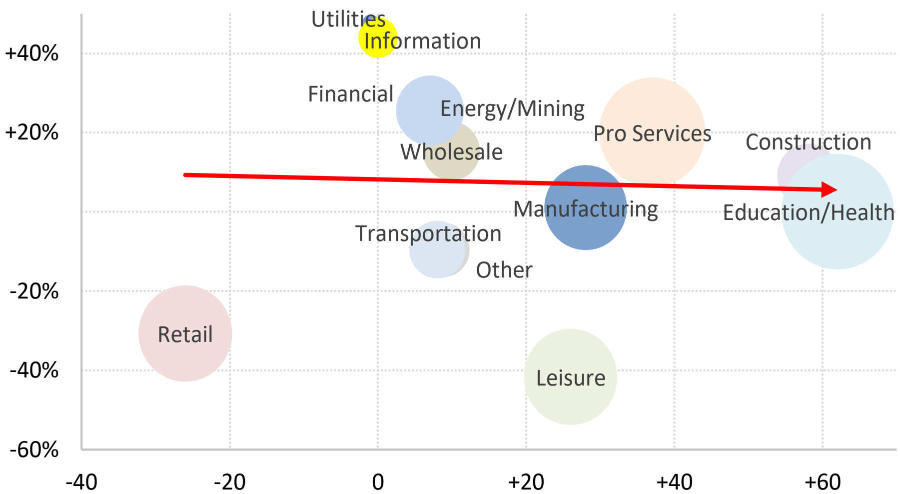
[Strategy dashboard]

surface this was in fact a very ordinary jobs report – with payroll growth about in the middle of the pack for this business cycle expansion (please see the chart on the previous page).

But beneath the surface things get much more interesting.

- *First, it is most unusual that, in the seventh year of the expansion, payroll growth is still in the middle of the pack. If this expansion were "overextended" or "long in the tooth" as so many critics claim, it would be visibly tapering off.*
- *Second, the durability of the present expansion can also be inferred from the sluggish growth in average hourly earnings, only up 0.2%. If we were facing a late-cycle labor shortage, wages would be rising more.*
- *Finally, for the first time that we can remember, payroll growth was evenly distributed across wage-levels. That is, in February all the growth wasn't just in low-paying jobs* (please see the second chart below, and "Data Insights: Jobs" March 10, 2017).

Vertical: **Hourly wages vs average** Horizontal: **Payrolls change, thousands**
Circle size: **Share of all employment** → **Relation of wages, payroll change**



Source: BLS, TrendMacro calculations

We continue to believe that this not-so-great expansion following the Great Recession is unlike any other business cycle we've experienced. Recovery was not front-loaded with the usual surge of payroll and output growth, and drop-outs from the labor force have masked the true amount of slack. And we had a "mid-cycle refresh" with a near-recession in the last quarter of 2015 and the first quarter of 2016 (see "Have We Suffered Enough?" February 26, 2016). Combined with a resurgence in "animal spirits" since the election (see "2017: It's Bigger than The Donald" December 30, 2016), and a Fed that will only gradually raise rates – and then, only in synch with a gradually rising "natural rate of interest" (see "Yellen's March to Neutrality" March 6, 2017) – we think this most unusual business cycle has a long way to run.

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[About us]

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US House of Representatives GOP
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Trumping Europe's Taxes
Joseph C. Sternberg
Wall Street Journal
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The Exhaustion of American Liberalism
Shelby Steele
Wall Street Journal
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Bottom line

A headline beat, but probably a small miss versus the whisper-number and the "Trump tweet-number." On the surface, this is a middle-of-the-pack jobs report. That said, seven years into the expansion, having payroll growth still strong – and wage growth still modest – implies that there is still lots of slack in the labor force. For the first month we can remember, job growth was evenly distributed across wage-levels – that is, no bias toward lower-paying sectors. With the Fed committed to gradual rate hikes tracking the gradually rising "natural rate of interest," and "animal spirits" set loose since the election, we think the present expansion has room to run.