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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 5, 2017

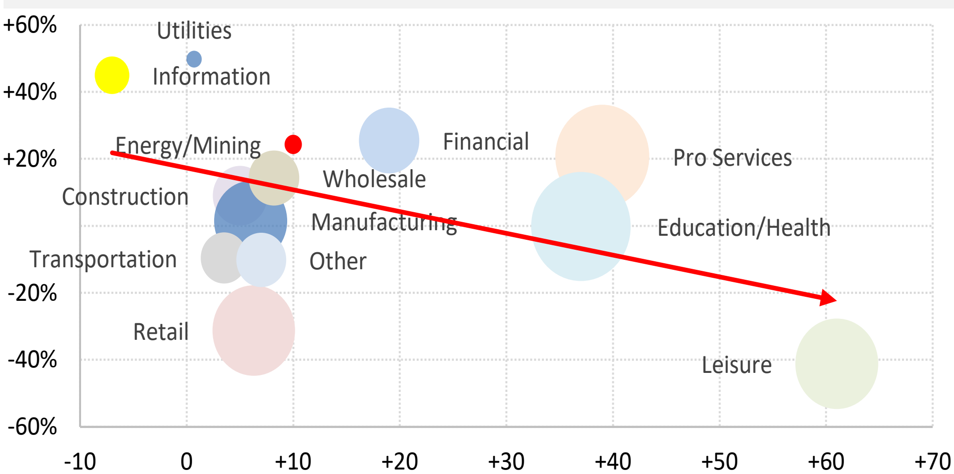
Donald Luskin

A modest upside surprise indicates that post-election small business optimism is paying off.

This morning's April Employment Situation report with 211,000 net payrolls gains beat consensus expectations of 190,000. This comes in at the high end of what our models had led us to expect based on other contemporaneous labor market indicators. In fact, it's right on-the-nose with the estimate of our model that incorporates small business hiring intentions, perhaps *indicating that the sharp rise in small business optimism since the election will begin to bear fruit* (see "From Executive Orders to Spontaneous Order" February 17, 2017).

- For us, the surprise this morning was that the last month's March Employment Situation report – a headline disaster with only 98,000 net payrolls – was revised *downward* by another 6,000 (see "On the March Jobs Report" April 7, 2017).
- It looks like March was a blip. Like the weak Q1-2017 GDP that was reported a week ago (see "Data Insights: GDP" April 28, 2017), it may be further evidence of residual seasonality in what purports to be seasonally adjusted data.
- This morning's data shows the labor market in April reverting to the long-standing pattern of an imbalance in jobs growth in favor of lower-paying sectors (please see the chart below, and "Data

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



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: This morning's above-consensus payroll gains came in at the high end of our models' estimates, spot-on with the model that incorporates small business hiring intentions. This may indicate that the surge of small business optimism since the election is beginning to bear fruit. We were surprised that March's low payroll number was revised slightly lower, and it points to the same residual seasonality that may have suppressed Q1-2017 GDP last week. With strong April gains in the leisure sector, small gains in retail, and strong but more modest gains in professional services, the labor market reverted back to its long-standing pattern of dominance in job growth by lower-wage sectors. Modest growth in average hourly earnings, on the back of downward revisions for March, gives the hawks at the Fed nothing new to worry about.

[Strategy dashboard]

Insights: Jobs" May 5, 2017). In March there had been a large contraction in retail sector payrolls, and no growth in leisure sector payrolls – both large sectors of the labor market, and both relatively low-paying. In April, leisure led all sectors in payroll expansion, and retail reversed March's contraction with modest growth.

- The high-paying professional services sector, which had been the only stand-out payroll gainer in March, performed well again in April, but was dominated by lower-paying leisure.
- For April the unemployment rate fell to a cycle low of 4.4%, with a 146,000 fall in the number of unemployed persons – all the sweeter with more than all of them having been unemployed for more than 26 weeks.
- The dark side of the low unemployment rate is that, computationally, it is due in part to the labor force having grown by only 12,000, with the labor force participation rate falling by 0.1% to 62.9%. As a result, the unemployment rate adjusted for participation *rose* to 8.9% from 8.8%.
- *From the Fed's standpoint, April's 0.3% growth in average hourly earnings will not be seen as any kind of alarming evidence of incipient inflation* – to the extent that the FOMC really even thinks much in those terms anymore (see "Yellen's March to Neutrality" March 6, 2017). It's all the less troubling as it builds on a 0.1% downward revision to March's reported data.

Bottom line

This morning's above-consensus payroll gains came in at the high end of our models' estimates, spot-on with the model that incorporates small business hiring intentions. This may indicate that the surge of small business optimism since the election is beginning to bear fruit. We were surprised that March's low payroll number was revised slightly lower, and it points to the same residual seasonality that may have suppressed Q1-2017 GDP last week. With strong April gains in the leisure sector, small gains in retail, and strong but more modest gains in professional services, the labor market reverted back to its long-standing pattern of dominance in job growth by lower-wage sectors. Modest growth in average hourly earnings, on the back of downward revisions for March, gives the hawks at the Fed nothing new to worry about.

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[About us]

Recommended Reading

One Move That Could Solve the GOP's Tax-Cut Math Problem (Maybe)
Richard Rubin
Wall Street Journal
May 1, 2017

Donald Trump Is The First President To Turn Postmodernism Against Itself
David Ernst
The Federalist
January 23, 2017

Who Should Pay to Cover Pre-Existing Conditions?
Charles Blahous
E21
May 1, 2017

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