

TRENDMACRO LIVE!

On the July Jobs Report

Friday, August 4, 2017

Donald Luskin

A big beat, driven by hiring by small businesses not distracted by Washington “chaos.”

[This morning's July Employment Situation report](#) was big beat, with 209,000 net payrolls versus a consensus of 180,000. A net upward revision for the prior two months was trivial at only 2,000. *The month-on-month payroll growth rate ties for the third best July in this business cycle expansion, now entering its ninth year.* The unemployment rate was reported falling to 4.3% from 4.4%, but this is the result of rounding – in fact, it fell to 4.35% from 4.36%, just enough to move the truncated headline number (see [“Data Insights: Jobs”](#) August 4, 2017).

- Net payrolls came in slightly above our estimate based on a portfolio of other contemporaneous labor market indicators that includes small business hiring intentions. They solidly beat our alternative estimate *excluding* small business. This continues a pattern seen generally since the November 2016 presidential election, suggesting that *the small business sector energized by President Donald Trump's deregulation agenda is acting as an engine for job growth* (please see the chart below).
- Despite the seeming atmosphere of chaos promoted by politicians

Payrolls versus regression of contemporaneous labor market indicators



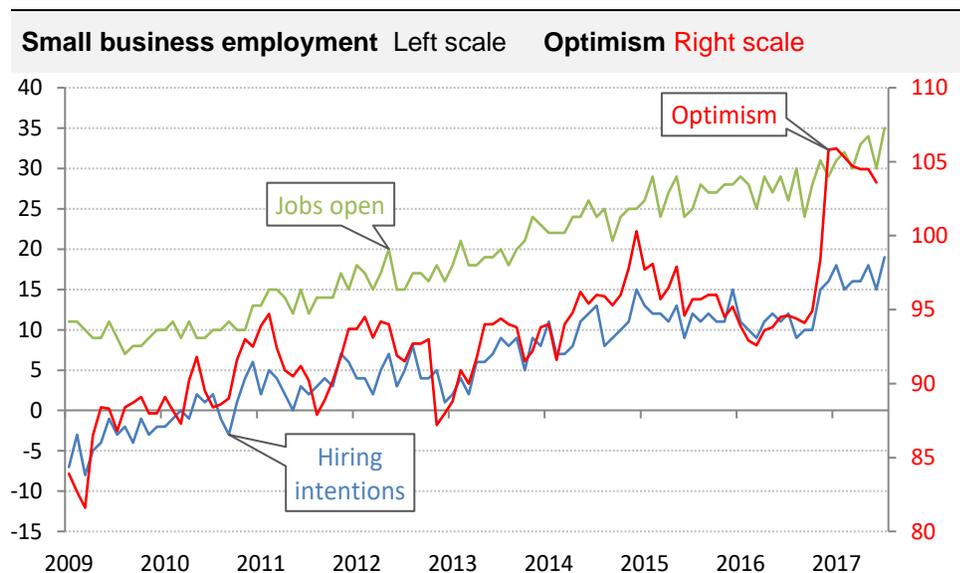
Source: BLS, ISM, ADP, Challenger, NFIB, TrendMacro calculations

Update to strategic view

US MACRO, US FED: A healthy beat with 209,000 net payrolls, tied for the third best month-on-month growth rate in a business cycle entering its ninth year. Strength appears to be coming from the small business sector, which has been energized by Trump's election and deregulation agenda. The labor force grew by 349,000, raising the participation rate to 62.9%, which is consistent with the age demographics of the population. But much slack remains, both because at this level of participation, we are still 1.8 million payrolls from full employment, and that leaves out the effects of new all-time highs for educational attainment. Wage growth was better, but nothing to worry the Fed. Still no more hikes this year.

[\[Strategy dashboard\]](#)

and the media as part of the “Trump infamy ecosystem” (see [“Drop the BAT and Run”](#) July 31, 2017), small business optimism remains very high following its post-election surge, and small business hiring intentions and job openings have been growing steadily (please see the chart below).



Source: NFIB, TrendMacro calculations

- The same idea is borne out in the alternate “household survey,” which showed a gain of 345,000 jobs – or 590,000 [when adjusted to the analytic basis used in the “payroll survey.”](#) We believe that the “household survey” is better able to capture the real-time dynamism of small business job formation, so when it beats the “payroll survey” like this, it implies an out-of-pattern surge in hiring by small businesses.
- The 345,000 new jobs reported in the “household survey” were part of growth in the labor force of 349,000, suggesting that all but 4,000 new entrants were able to find a job.
- With that, the labor force participation rate ticked up to 62.9% – a level that we believe is perfectly consistent, based on historical norms, with the present age distribution of the US population (see [“The Demographics Myth”](#) March 20, 2017).
- But we think there is still much room to run in the growth of labor force. While participation is now normal in relation to age demographics, it is far below normal considering the new all-time high levels of educational attainment of the US labor force.
- And even holding *participation* constant, we think the labor force is 1.8 million jobs from full employment (again, see [“Data Insights: Jobs”](#) August 4, 2017).
- That there is that much “slack” still in the labor force is borne out by average hourly earnings growth of 0.3% in July – the best rate since February, but nothing for the Fed to worry about, to the extent that they still worry about Phillips Curve notions at all (see [“On the July FOMC, and Cohn for Fed Chair?”](#) July 26, 2017). In the immediate aftermath of this morning’s data release, market

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Recommended Reading

[Reagan Cut Taxes, Revenue Boomed](#)
Phil Gramm and Michael Solon
Wall Street Journal
August 4, 2017

[Exceptions to the Rule: The Politics of Filibuster Limitations in the U.S. Senate](#)
Molly E. Reynolds
Brookings Institution Press
July 2017

[Trump Should End Obama’s Bailout of Congress’s Health Care](#)
Phil Kerpen
The Federalist
August 1, 2017

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expectations for the fed funds rate moved only trivially higher, with a greater than 50% implied probability of the next hike still not showing up until next March.

- We continue to expect that while the Fed will begin non-reinvestment of Treasuries and MBS in its portfolio this year, there will be no more rate hikes in 2017 (again, see [“On the July FOMC, and Cohn for Fed Chair?”](#)).

Bottom line

A healthy beat with 209,000 net payrolls, tied for the third best month-on-month growth rate in a business cycle entering its ninth year. Strength appears to be coming from the small business sector, which has been energized by Trump’s election and deregulation agenda. The labor force grew by 349,000, raising the participation rate to 62.9%, which is consistent with the age demographics of the population. But much slack remains, both because at this level of participation, we are still 1.8 million payrolls from full employment, and that leaves out the effects of new all-time highs for educational attainment. Wage growth was better, but nothing to worry the Fed. Still no more hikes this year. ▶