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TRENDMACRO LIVE!

# On the August Jobs Report

Friday, September 1, 2017

**Donald Luskin**

## A weak month for jobs, but a strong case for raising the debt ceiling and cutting taxes.

This morning's August Employment Situation report with 156,000 net payroll gains was a miss versus the consensus for 180,000. On the surface, most of the miss was a net loss of 8,000 government payrolls versus a consensus for an 8,000 net gain. That said, August's disappointing headline gains come with the bar having been lowered by downward revisions totaling 41,000 for June and July.

- The 9 basis points rise in the unemployment rate, to 4.44% from 4.35%, can't be explained away by the 77,000 increase in the civilian labor force as reported by the "household survey." That gain is explained by an increase in unemployment by 151,000 and a decrease in employment by 74,000 – which implies, loosely, that more than all the new entrants to the labor force are unemployed (see "Data Insights: Jobs" September 1, 2017).
- *This tepid report can't be explained by Hurricane Harvey. According to the Bureau of Labor Statistics, the storm occurred too late in the month to have any effect on the data.*
- Furthermore, with the report being issued on the first calendar day of the new month, we don't have the full panoply of contemporaneous labor market data sources as a reality-check. We have no telemetry yet from ISM Services or NFIB hiring indices. But the major inputs that we do have – ADP payrolls, which was a big *upside* surprise at 237,000 net payrolls gained, and ISM Manufacturing, where hiring plans are strongest in more than six years – suggest that *this morning's report may be as inexplicably out-of-pattern to the downside as March's and May's were.*

This seemingly soft report like this comes at a critical time for policy.

- *If there was even the slightest doubt that there will be no rate hike at the September FOMC, this report* – showing another lackluster gain of 0.1% in average hourly earnings, on top of yesterday's Personal Income report showing Personal Consumption Expenditures inflation falling to 1.41% year-on-year – *locks it in*. The only question is whether these data, on top of uncertainties arising from Harvey, will also cause the Fed to delay the onset of normalization of its asset portfolio. *It's a close call, but we expect now that normalization won't begin until after the December FOMC.*

**Update to strategic view**

**US MACRO, US FED:** A disappointing jobs report, on top of downward revisions, and we can't blame Hurricane Harvey. It's out of synch with upside surprises in ADP payrolls and ISM employment indices this week, but on only the first day of the new month we lack the other labor market indicators for a full reality-check. Another dull month for wage gains – on top of yesterday's reported drop in PCE inflation and uncertainties arising from Harvey – absolutely lock in no rate hike at the September FOMC, and probably defers onset of normalization of the balance sheet for a December announcement. It's also ideal optics for setting up the fight to raise the debt ceiling and cut taxes – not an embarrassment to the Trump administration, but an argument for caution and stimulus. We reiterate our contrarian view that tax cuts will be enacted this year.

[Strategy dashboard]

- We don't want to over-interpret immediate market reactions that are, in fact, only tiny and potentially random vibrations. But we note that long-term Treasury yields have backed up following the release of the report. We believe that, directionally at least, this is consistent with an expectation that normalization of the balance sheet will be deferred. We continue to think that, contrary to general opinion, the Fed's reduction of its bond holdings – while not a big deal one way or the other – is more likely to cause yields to fall rather than rise (see "Time for Taper Tantrum Two?" April 6, 2017).
- With Harvey as a crisis too good to waste, this morning's report is ideal for the optics of charging forward with raising the debt ceiling without too much fuss, and moving on to tax cuts – the new Top Priority kicked off yesterday by President Donald J. Trump with a speech at a factory in Missouri, the home of swing Democratic Senate vote Claire McCaskill (see "Trump's Tax Cut Nuclear Option" May 1, 2017). This morning's jobs numbers are not so bad as to be an embarrassment to the Trump administration, but just bad enough to argue that the economy can't afford the shock of a shutdown or debt crisis, and needs some stimulus from tax cuts. *This only underscores our ongoing contrarian expectation that tax cuts will be enacted this year.*

## Bottom line

A disappointing jobs report, on top of downward revisions, and we can't blame Hurricane Harvey. It's out of synch with upside surprises in ADP payrolls and ISM employment indices this week, but on only the first day of the new month we lack the other labor market indicators for a full reality-check. Another dull month for wage gains – on top of yesterday's reported drop in PCE inflation and uncertainties arising from Harvey – absolutely lock in no rate hike at the September FOMC, and probably defers onset of normalization of the balance sheet for a December announcement. It's also ideal optics for setting up the fight to raise the debt ceiling and cut taxes – not an embarrassment to the Trump administration, but an argument for caution and stimulus. We reiterate our contrarian view that tax cuts will be enacted this year.

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**Recommended Reading**

**Meet Survivor Season 35 Castaway Roark Luskin**
CBS
August 30, 2017

**Remarks by President Trump on Tax Reform**
Donald J. Trump
August 30, 2017

**Are Republicans Actually Too Incompetent to Cut Taxes?**
Brian Beutler
*New Republic*
August 30, 2017

**Some Thoughts and Advice for Our Students and All Students**
Paul Bloom *et al.*
James Madison Program in American Ideals and Institutions
August 29, 2017

**Why the Left Can't Let Go of Racism**
Shelby Steele
*Wall Street Journal*
August 28, 2017

**Transcript: Gary Cohn on tax reform and Charlottesville**
*Financial Times*
August 24, 2017

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