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TRENDMACRO LIVE!

On the March Jobs Report, and New China Tariffs

Friday, April 6, 2018

Donald Luskin

I'll see your $50 billion and raise you $100 billion. Oh, and a disappointing jobs report.

Yesterday evening President Donald J. Trump asked the US Trade Representative to consider tariffs on an additional $100 billion of imports from China – a counter-counter-threat against China's counter-threat of tariffs on $50 billion of imports from the US, against the original US threat of tariffs on $50 billion of imports from China. *You got all that?*

- When this tariffs episode began over a month ago (see "Tariffs: How Scared Should We Be?" March 2, 2018), we put out the then-heretical idea that *it's all just an "art of the deal" negotiating ploy, designed to drive China to the bargaining table and exact concessions. Unfortunately, that proved to be too true, and has quickly become conventional wisdom* – with various administration spokesmen saying exactly that quite overtly this week and last. It would have been better if they'd kept their mouths shut. *Bluffing doesn't work if you tell everyone that's what you are doing.*
- *So now it shouldn't be surprising to see Trump with little choice but to raise the stakes in order to get serious negotiations underway. And we wouldn't be surprised to see the narrative shift a bit now, in the direction of a consensus that China really is in the wrong here, and that Trump is right to do something about it.*
- We say that because we think China erred with its counter-threat. Before the Section 301 tariffs were announced, China had tried to head them off by urging restraint and promising reform. When Trump went ahead, China could have played the injured innocent by doing nothing, and let the world paint Trump as a protectionist aggressor. But with its counter-threat, China lost the high ground – giving the world the opportunity to view this not through the usual anti-Trump lens, but rather to judge the case on the merits. *On the merits, China, with its many and well-known trade abuses, loses.*
- *Thus China is isolating itself in the community of nations* – which it cannot ultimately afford to do if Xi Jinping, as helmsman-for-life, wishes to redress China's economic imbalances and realize ambitions to be a full-fledged economic super-power, ultimately to have its currency accepted as a global medium of exchange and reserve asset. *China's first response overnight was aggressive in tone, but so far without the substance of any specific counter-counter-counter-threat. We'll be surprised if it repeats that mistake now. Sun Tzu: "All armies prefer high ground to low."*

Update to strategic view

US MACRO, ASIA MACRO, US FED: The new potential additional tariffs on China are a necessary counter-counter-counter-threat given China's counter-counter-threat, and the widespread perception that both sides are bluffing. Productive peace negotiations can only happen when there is real fear of war. China has the opportunity to take the high ground now by a relatively moderate response, which ultimately it must do to not be isolated in the community of nations on which it ultimately depends for its ambitions of legitimate super-power status. This morning's payroll miss was as out-of-step on the downside as last month's was out-of-step on the upside. We don't see it as a warning-shot of incipient economic weakness. The small improvement in hourly earnings, driven by the sector-mix of payroll gains, won't make the Fed any more aggressive.

[Strategy dashboard]

- *More next week. Now on to the jobs report.*

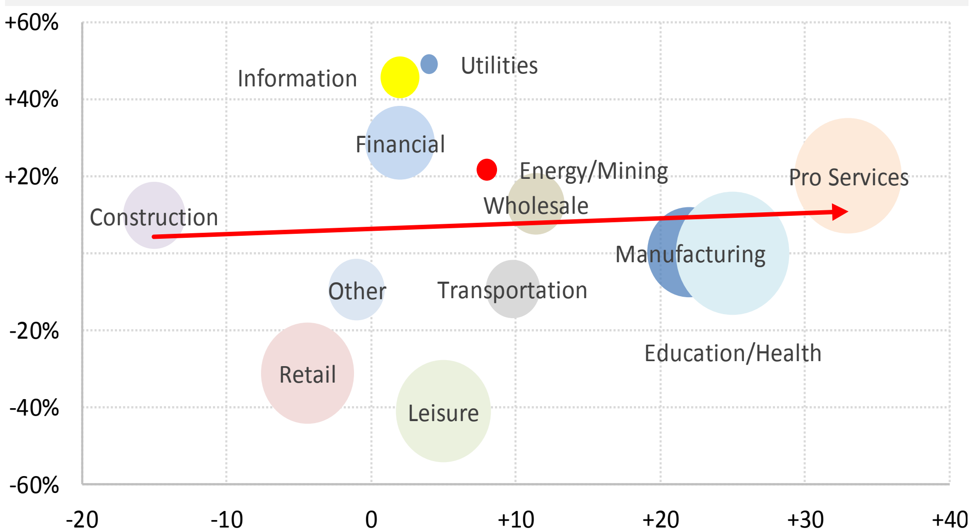
This morning's March Employment Situation report, with only 103,000 net payrolls, was a big miss versus consensus expectations of 185,000. *It's completely out-of-step with our model's expectation of 213,000, which is derived in a forecast-free manner from other contemporaneous labor market indicators. So we don't immediately interpret it as some kind of warning-shot about incipient cyclical weakness.*

- This morning's payrolls are as out-of-step on the downside as last month's gangbusters report was on the upside (see "On the February Jobs Report" March 9, 2018). Oddly, February's seemingly absurd 313,000 payrolls were revised *upward* this morning by 13,000 – but January's were revised downward by 63,000. Together, they make March's payrolls look 50,000 worse.

Much of last month's too-good-to-be true data (see "Data Insights: Jobs" March 9, 2018) *was reversed to some extent, at least directionally, this month* (see "Data Insights: Jobs" April 6, 2018).

- February's surge of 806,000 new entrants to the labor force was moderated in March by an exit of 158,000. The number of unemployed persons fell by 121,000, so the unemployment rate was reported as unchanged at 4.1%.
- February's spurt of labor market dynamism – marked by upticks in both the "outflow rate *from* unemployment" and the "inflow rate *to* unemployment" – reversed somewhat.
- Average hourly earnings grew by 0.3% month-on-month, improving on February's tepid 0.2% (all the worse because it had been on the back of downward revisions to January). This uptick was due to an out-of-trend relative improvement in the mix of payroll gains, tilted toward higher wage sectors (please see the chart below). So

Hor: **net payroll change** Vert: **earnings vs average** Size: **total payrolls**



Source: BLS, TrendMacro calculations

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[About us]

Recommended Reading

Crack and Pack: How Companies Are Mastering the New Tax Code
Ruth Simon and Richard Rubin
Wall Street Journal
April 3, 2018

A Hong Kong Newspaper on a Mission to Promote China's Soft Power
Javier C. Hernandez
New York Times
March 31, 2018

I downloaded all my Facebook data. This is what I learned.
Jefferson Graham
USA Today
March 30, 2018

Friedman 1968 at 50
John Cochrane
The Grumpy Economist
March 27, 2018

Options for Universal Basic Income: Dynamic Modeling
Penn Wharton Budget Model
March 29, 2018

[Reading home]

there’s nothing about a new-normal reading like 0.3%, especially under these circumstances, to alarm the Fed about so-called “wage pressure.”

Bottom line

The new potential additional tariffs on China are a necessary counter-counter-counter-threat given China’s counter-counter-threat, and the widespread perception that both sides are bluffing. Productive peace negotiations can only happen when there is real fear of war. China has the opportunity to take the high ground now by a relatively moderate response, which ultimately it must do to not be isolated in the community of nations on which it ultimately depends for its ambitions of legitimate super-power status. This morning’s payroll miss was as out-of-step on the downside as last month’s was out-of-step on the upside. We don’t see it as a warning-shot of incipient economic weakness. The small improvement in hourly earnings, driven by the sector-mix of payroll gains, won’t make the Fed any more aggressive.