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TRENDMACRO LIVE!

On the June Jobs Report

Friday, July 6, 2018

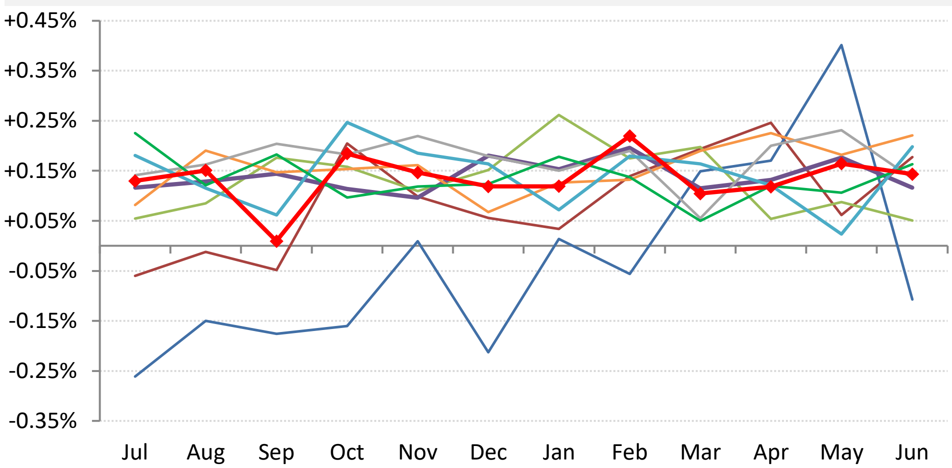
Donald Luskin

Wow. We just found 601,000 workers that we were supposed to be running out of.

This morning's June Employment Situation report wraps up the ninth year of economic expansion exactly middle-of-the-pack for the last nine Junes (please see the chart below), *a remarkable performance seemingly so "late in the cycle," and when we're supposedly "running out of workers."* 231,000 net payroll gains solidly beat expectations for 195,000 – and all the more so considering that the prior two months were revised upward by a combined 37,000 payrolls.

- *And this time President Trump didn't tweet-leak it.*

Payroll growth Month-over-month, July-to-June annual cycle



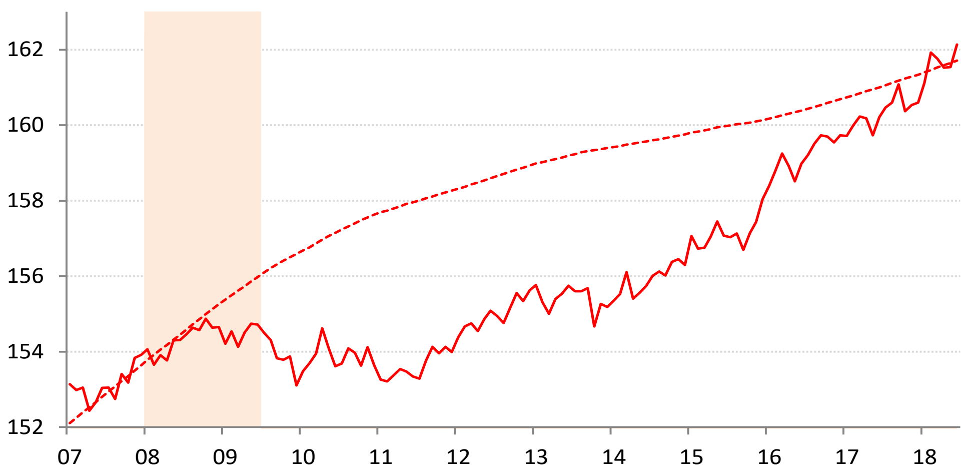
Source: Bureau of Labor Statistics, TrendMacro calculations

- We said at last month's jobs report that it was too soon to worry about "running out of workers" (see "On the May Jobs Report: What Labor Shortage?" June 1, 2018). Today's report resoundingly confirms that by reporting that the civilian labor force grew by 601,000, notably above the decelerating 20-year trend, and enough to start re-accelerating that trend (please see the chart on the following page, and "Data Insights: Jobs" July 6, 2018).
- That was enough to move the labor force participation rate from 62.7% to 62.9%, and it explains why the unemployment rate ticked up to 4.0% from 3.7%. Of the 601,000 new entrants to the

Update to strategic view

US MACRO, US FED: The ninth year of this economic expansion wraps up with a very strong jobs report, far outstripping consensus expectations, especially on the back of upward revisions to prior months. The unemployment rate ticked up to 4% only because of 601,000 new entrants to the labor force, almost all of whom come in counting as long-term unemployed. The labor force is now above its decelerated trend, and that trend is now re-accelerating. Tepid hourly wage growth, lower than last months, will allay any concern at the Fed about so-called "wage inflation" feeding into an "overheating" economy.

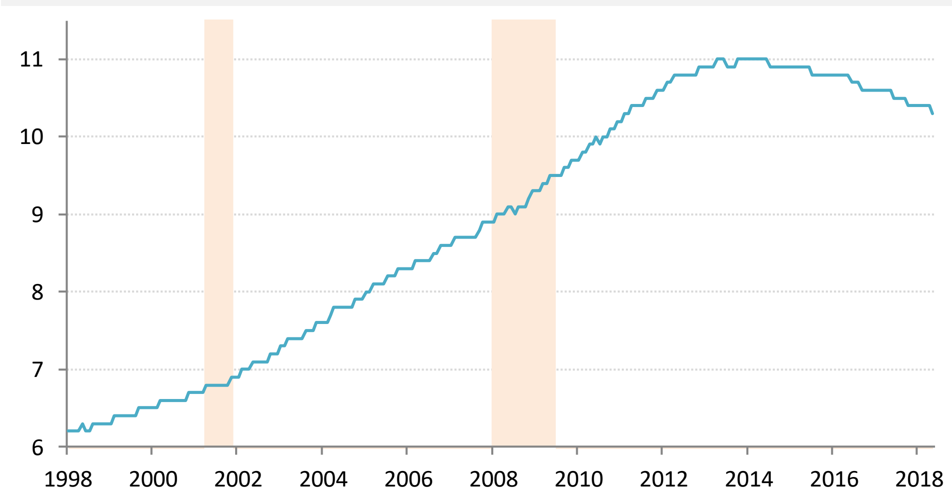
[Strategy dashboard]



Source: Bureau of Labor Statistics, TrendMacro calculations

workforce, only 102,000 found jobs in June. The remaining 499,000 are not *officially counted* as unemployed, whereas last month, being out of the labor force, they were *uncounted but nevertheless unemployed.*

- The number of long-term unemployed rose by 510,000, confirming that most of the 601,000 new entrants to the labor force have been jobless a long time, and are only now being lured back by more rapid economic growth.
- Even the ranks of the disabled are being called up. The number of beneficiaries of Social Security disability benefits peaked in 2014 and 2015, and has been falling at an accelerated pace ever since, as opportunities open up in the labor force (please see the chart below).
- For all this, average hourly earnings grew at a tepid 0.2% in June,



Source: Social Security Administration, TrendMacro calculations

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Recommended Reading

A Frosty Summer for Alan Dershowitz on Liberal Martha's Vineyard
Jess Bidgood and Julie Bosman
New York Times
July 4, 2018

'The Fed and Lehman Brothers' Review: When the Bailouts Stopped
George Melloan
Wall Street Journal
July 2, 2018

Keeping Your Cool — Doing Ebola Research during an Emergency
Charlotte J. Haug
New England Journal of Medicine
June 21, 2018

Inside the White House's Quiet Campaign to Create a Supreme Court Opening
Adam Liptak and Maggie Haberman
New York Times
June 28, 2018

[Reading home]

down from 0.3% in May. *This, in combination with the headline jump in the unemployment rate, takes pressure off any possible concerns at the Fed about wage gains – which the FOMC insists on referring to, confusedly and confusingly, as "wage inflation"* (see "Data Insights: FOMC Minutes" July 5, 2018) – as an indicator that the economy is "overheating."

Bottom line

The ninth year of this economic expansion wraps up with a very strong jobs report, far outstripping consensus expectations, especially on the back of upward revisions to prior months. The unemployment rate ticked up to 4% only because of 601,000 new entrants to the labor force, almost all of whom come in counting as long-term unemployed. The labor force is now above its decelerated trend, and that trend is now re-accelerating. Tepid hourly wage growth, lower than last months, will allay any concern at the Fed about so-called "wage inflation" feeding into an "overheating" economy.