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TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 5, 2019

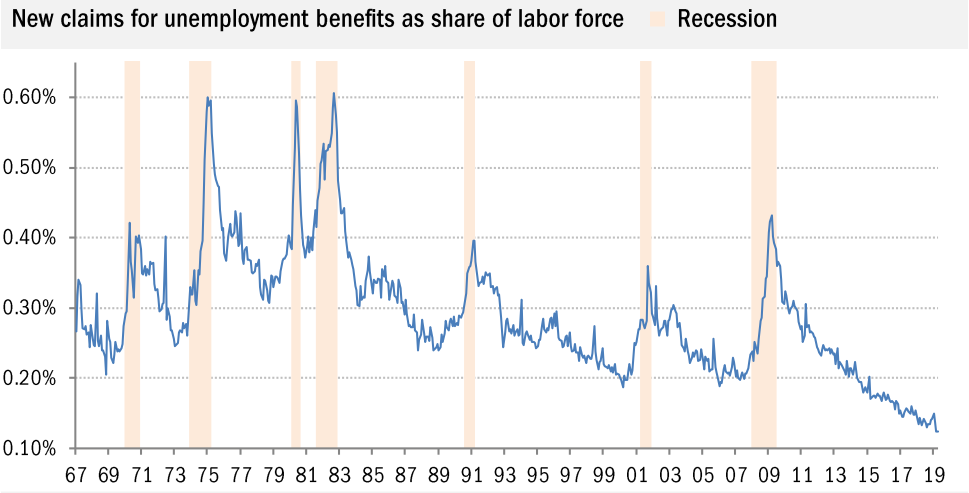
Donald Luskin

A relief from February's recession warning. Then why aren't bond yields backing up?

This morning's March Employment Situation report with 196,000 net new payrolls looks at first like a garden-variety beat versus the consensus for 177,000. In some sense it's better than that, considering the prior two months were revised upward by 14,000, creating a slightly higher hurdle to have jumped to produce a beat. But those revisions should have been much greater. *February's 20,000 net payrolls was an outright anomaly against all other labor market data last month – just crying out for a big upward revision that so far hasn't come* (see "On the February Jobs Report" March 8, 2019). *But at least that leaves March's strong number uncluttered – whatever was wrong with February. For March, at least it is what it is.*

- *What it isn't is a recession warning, which February was widely feared to be.*
- It's the same with unemployment claims. They had been flashing something of a recession warning with a little boomlet in January and February, but have now fallen back to the lowest absolute level in the history of the data – and even lower than that, adjusted for the vastly larger size of the current labor force compared to the last time claims were at today's low levels (please see the chart below).
- We don't understand why the Treasury market, as of this writing, isn't taking it at that way. We've been delighted to see a substantial

New claims for unemployment benefits as share of labor force



Source: BLS, NBER, TrendMacro calculations

Update to strategic view

US MACRO, US FED, US BONDS: 196,000 net payrolls is a small upside surprise on top of upside revisions, but it's a mystery why February's anomalously low numbers were revised so little higher. March's data contradicts the seeming recession warning in February's, as does the move to new unemployment claims to the lowest in the history of the data, all the more so considering the size of today's labor force. The only deflationary signal today is the slowdown in monthly average hourly earnings growth, and a downward revision to February's. But this gives the Fed plenty of runway to continue to be patient, or even bow to the dove case now being made more insistently by Trump, and soon from within the Fed itself by Moore and Cain. We continue to think bonds have reacted mistakenly to recession fears and the March FOMC, and expect yields to continue to back up further from last week's panic bottom.

[Strategy dashboard]

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back-up in the 10-year yield from the panic low at 2.33% last week. We feel smarter now, or at least less stupid, after having declared the whole post-FOMC bond rally a mistake soon to be corrected (see “On the March FOMC” March 20, 2019). We still expect further correction, that is, higher yields.

- *If the bond market absolutely insists on extracting a deflationary message from this morning’s jobs report, perhaps it is that monthly average hourly earnings growth surprised on the downside, at a sluggish 0.14%*. At the same time, February’s hot earnings growth was revised lower.
- *But that would be to ignore the Fed’s reaction-function. Sluggish earnings growth is the spoonful of sugar that will help the dove case go down with the Phillips Curve dead-enders on the Fed staff* – a case now being pushed ever more aggressively by President Donald J. Trump, and soon more so when Stephen Moore and now Herman Cain show up as Fed Board Governors (see “The Curve Inverts, and a ‘Growth Hawk’ for the Fed” March 25, 2019). *That dove case is both pro-growth and dis-deflationary – in which case it should drive long-term yields higher, not lower*.
- Amidst all the positives in today’s report, the “household survey” showed a contraction of 201,000 jobs, and an increase of 24,000 unemployed – resulting in a contraction in the overall size of the labor force by 224,000 (see “Data Insights: Jobs” April 5, 2019). That said, when converted to a “payroll basis,” it’s a *gain* of 428,000 jobs! We really are getting ready to declare this whole labor statistics thing officially out of control.
- Perhaps a culprit is the unusually cold weather we’ve experienced in the first quarter of 2019.

Bottom line

196,000 net payrolls is a small upside surprise on top of upside revisions, but it’s a mystery why February’s anomalously low numbers were revised so little higher. March’s data contradicts the seeming recession warning in February’s, as does the move to new unemployment claims to the lowest in the history of the data, all the more so considering the size of today’s labor force. The only deflationary signal today is the slowdown in monthly average hourly earnings growth, and a downward revision to February’s. But this gives the Fed plenty of runway to continue to be patient, or even bow to the dove case now being made more insistently by Trump, and soon from within the Fed itself by Moore and Cain. We continue to think bonds have reacted mistakenly to recession fears and the March FOMC, and expect yields to continue to back up further from last week’s panic bottom.

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