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TRENDMACRO LIVE!

On the May Jobs Report

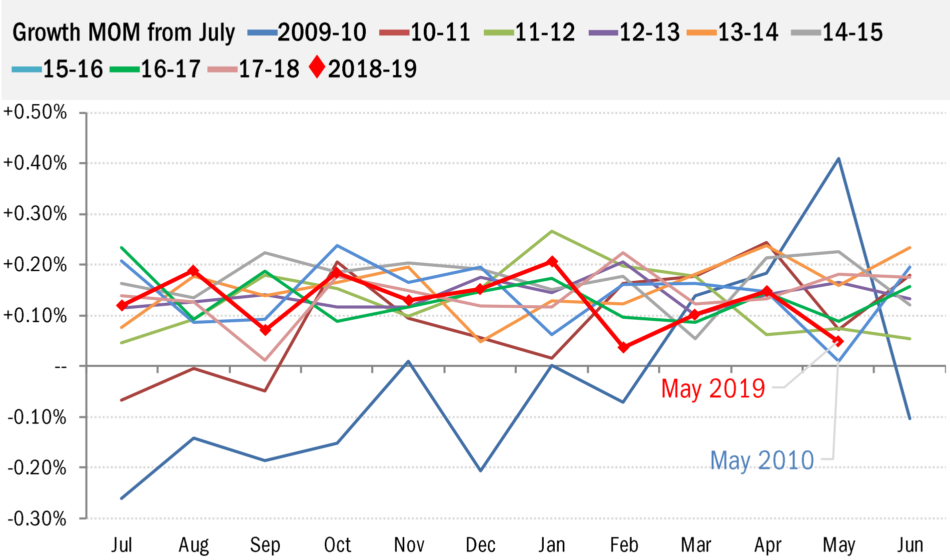
Friday, June 7, 2019

Donald Luskin

After revisions, payroll growth was a big fat zero. But that doesn't have to mean recession.

This morning's May Employment Situation report with 75,000 net payrolls was in-line with our forecast based on contemporaneous labor market data, but a big miss versus the consensus of 175,000. It's worse than it looks, because the prior two months' data were revised down by a cumulative 75,000 payrolls. *Without revisions, May payrolls would have been a big fat zero*.

- As of this writing – equities are making new recovery highs, and 10-year Treasury yields have made new lows for this move at 2.05%, deepening the inversion of the funds rate-10 curve to test Monday's lows at -0.31%. With average hourly wages reporting at a monthly gain of a tepid 0.22%, and year-over-year falling to just 3.1%, *clearly the bet is that all this moves the Fed closer to our expectation that there will be a rate cut as soon as the upcoming June FOMC* (see "It's So Time to Cut Rates" June 3, 2019, and "Trump Wants to Cut Interest Rates. Powell Should Do It Anyway." June 4, 2019). The futures markets upgraded their estimate of a June cut to as high as 31% probability, and a July cut to 77%.
- One may well ask what net good is accomplished if the economy has to visibly weaken in order to get the Fed to ease. *If Fed policy*



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: A big miss with only 75,000 net payrolls is worse that it looks. Without downward revisions to the prior two months, it would have been zero. There is no evidence of job losses, only absence of job gains. At this point in the labor market, with the unemployment rate already at a low 3.6%, it takes not just growth but accelerating growth to lure the 2.3 million prime-age persons now outside the labor force back into it. But this moves the Fed closer to rate cuts in June, and surely in July. That would be a game-changer, being the first time ever that Powell will have done the right thing. We are in the last throes of processing the multiple shocks of Q4-2018. The last time May payroll growth was this weak was 2016, at the end of the "undocumented recession" that had been caused by all the same shocks. We expect an instant replay, with growth re-accelerating as it did in 2016 after the Brexit pseudo-crisis.

[Strategy dashboard]

was too tight last year when the economy was strongly accelerating, easing now that the economy is decelerating isn't truly easing at all – it's just tracking. Fair enough, but there's something more that is implied here. *If Fed Chair Jerome Powell does cut rates here, it will be a game-changer.* It will be the first time Powell will have ever done anything right. Markets roared simply when he stopped doing the wrong thing after it became clear he had cut a deal with President Donald J. Trump over the Christmas Eve weekend to stop the rate hikes (see "Did Powell Just Cut a Deal?" December 23, 2018). *With such a powerful reaction to him stopping doing the wrong thing, we look forward to another powerful reaction when he starts doing the right thing.*

- Evidence that he is capable, in fact, of finally doing something right will be a huge boost to confidence about a factor that, so far, has been a material drag.

That consideration aside, does this morning's weak jobs report mean that what the bond market seems to have been predicting for much of this year is correct, that is, a recession is upon us at last?

- To be sure, by the headline payroll number, this was the second-worst May in this business cycle expansion (please see the chart on the first page). *But perhaps it is revealing to note what the very worst was – May 2016, with only 15,000 net payrolls* (see "On the May Jobs Report" June 3, 2016). And *that* jobs report didn't point to a recession. Indeed, it was the last gasp of an "undocumented recession" that we predicted several quarters earlier (see "This the Oil Shock Tipping Point?" August 20, 2015). *That jobs report proved to be the launch-point for another leg up in the expansion, once the Brexit crisis several weeks later – which we said at the time was only a pseudo-crisis – was metabolized by markets* (see "On the Brexit Referendum" June 24, 2016).
- We have said repeatedly that we see the present moment as being eerily analogous to the 2015-2016 "undocumented recession," with all the same causal factors at work – a too-tight Fed on "auto-pilot," an oil price crash, widening credit spreads, and even a Chinese growth and currency crisis (most recently, again see "It's So Time to Cut Rates").
- *It's not out-of-pattern at all to see a weak jobs report now, given the turbulence all these shocks wrought in Q4-2018. When that seemingly strong Q1-2019 GDP report was released in April* (see "Data Insights: GDP" April 26, 2019), *we warned it was too good to be true, and that there would still be some payback to experience* (see "Video: What you're not hearing about Q1-2019 GDP" April 26, 2019). *We expect a weak Q2-2019 GDP report, too, for all the same reasons.*
- *We'd be more worried if we were seeing evidence of actual job losses. But we're not* – not in today's jobs report, nor in lay-off or claims data. Instead, *we're seeing the economy finding it difficult to add new jobs* with the unemployment rate already at a low 3.6%.
- It's not that we're running out of workers, exactly. We estimate that there are still 2.3 million prime-age persons outside the labor force,

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Recommended Reading

Americans May Be Strapped, But the Go-To Statistic Is False
Michael R. Strain
Bloomberg
June 4, 2019

China's Position on the China-US Economic and Trade Consultations
State Council Information Office of the People's Republic of China
June 2, 2019

[Reading home]

who could yet come back (see [“Data Insights: Jobs”] June 7, 2019).

- But it takes not just a growing economy, but an accelerating one, to draw those people back into the labor force and get them working. *The closer you get to the bottom of the barrel, the harder it is to scrape.*
- *Clearly, while the economy is growing, it is not accelerating as it was last year at this time*.
- *With the Fed set to make a game-changing move toward more appropriate rates, and with S&P 500 forward earnings-per-share now having recovered to new all-time highs – pulling out of a worrisome dip last October* (see “Recession Risk at Last?” November 20, 2018) – *we are by no means ready to forecast an imminent recession.*

Bottom line

A big miss with only 75,000 net payrolls is worse that it looks. Without downward revisions to the prior two months, it would have been zero. There is no evidence of job losses, only absence of job gains. At this point in the labor market, with the unemployment rate already at a low 3.6%, it takes not just growth but accelerating growth to lure the 2.3 million prime-age persons now outside the labor force back into it. But this moves the Fed closer to rate cuts in June, and surely in July. That would be a game-changer, being the first time ever that Powell will have done the right thing. We are in the last throes of processing the multiple shocks of Q4-2018. The last time May payroll growth was this weak was 2016, at the end of the “undocumented recession” that had been caused by all the same shocks. We expect an instant replay, with growth re-accelerating as it did in 2016 after the Brexit pseudo-crisis.