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TRENDMACRO LIVE!

# On the August Jobs Report

Friday, September 6, 2019

**Donald Luskin**

**A big miss, but strongly rising wages. It's too tough a puzzle for the FOMC to solve.**

*This morning's August Employment Situation report* *was just plain weird*.

- On the surface, at 130,000 net payrolls, it was a big miss versus the consensus expectation for 160,000 – all the more so considering downward revisions of 20,000 to the prior two months.
- Aside from it being a miss, it feels like just a low absolute number. In fact it is at the lower end of the middle of the pack for an August in this business cycle expansion. But it's propped up by the presence of 25,000 temporary decennial census workers.
- *What's weird is that it is wildly at variance with other contemporaneous labor market statistics, which taken together imply about 220,000 net payrolls for August.*
- *It is at even sharper variance with the Bureau of Labor Statistics' own "household survey" data that shows employment rising by 590,000, while unemployment fell by 19,000. In fact, that 590,000 would have been over a million if the "household survey" had been tabulated using the same methods as the "payroll survey." So we have to expect that August payrolls are going to get revised upward.*
- And then there's the seeming anomaly – not exactly a variance – of the 0.39% jump higher in average hourly earnings – the biggest advance since a year ago – and an improvement of 0.07% on top of an 0.04% revision to last month's number. This evidence of pricing power for labor is not what you'd see if the seemingly low net payrolls number were implying imminent recession. If anything, it implies we're running out of workers.
- *Or to square that circle, we could say that while the economy is not imminently slipping into recession, neither is it strong enough to lure back into the workforce the 2 million prime-age persons who we believe remain dropped out from it* (see "Data Insights: Jobs" September 6, 2019).
- *That's an interesting dilemma for the Fed, which hasn't been very good at squaring circles lately.*
- On the one hand, for true-blue dead-end believers in the Phillips Curve, this faster growth in earnings is *ipso facto* evidence of inflationary pressures. On the other hand, less religiously preoccupied policymakers might look at 130,000 payrolls as a low absolute number, and this week's report showing core PCE

**Update to strategic view**

**US MACRO, US FED:** A payrolls miss made worse by downward revisions, and a low absolute number even worse when census workers are subtracted. But 130,000 net payrolls is very inconsistent with the 220,000 implied by contemporaneous labor market statistics, and with the 590,000 jump in employment in the "household survey," which would have been over 1 million on a "payroll basis." We expect upward revisions. The sharp growth in average hourly earnings, on top of an upward revision, implies pricing power for labor consistent with a strong economy, blunting the potentially recessionary message in the payrolls miss. But the economy is not strong enough to lure back the 2 million prime-age persons outside the labor force. This is a conundrum for the FOMC, where some members will reflexively see an inflationary risk in rising wages, while others will see a low-inflation economy that could grow faster if policy weren't too tight. This duality confirms a 25 bp cut in September, not the optimal 50 bp.

[Strategy dashboard]

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inflation at an embarrassingly mandate-missing 1.58%, and conclude that – just maybe – policy is too tight.

- Unfortunately, the FOMC is so consumed by political considerations (see “Video: What you shouldn't have to hear about William Dudley’s attack on Fed independence” August 28, 2019) and so without leadership (see “On Powell at Jackson Hole, and Over the Edge with China” August 23, 2019), confirmation bias will likely rule the day. *Today’s data will only reinforce whatever it is that each policymaker already believed before he even saw it. So for now, we have to assume that market expectations are about right for the September FOMC: a 25 bp cut – not 50 bp, which we firmly believes the economic data and market signals call for.*

## Bottom line

A payrolls miss made worse by downward revisions, and a low absolute number even worse when census workers are subtracted. But 130,000 net payrolls is very inconsistent with the 220,000 implied by contemporaneous labor market statistics, and with the 590,000 jump in employment in the “household survey,” which would have been over 1 million on a “payroll basis.” We expect upward revisions. The sharp growth in average hourly earnings, on top of an upward revision, implies pricing power for labor consistent with a strong economy, blunting the potentially recessionary message in the payrolls miss. But the economy is not strong enough to lure back the 2 million prime-age persons outside the labor force. This is a conundrum for the FOMC, where some members will reflexively see an inflationary risk in rising wages, while others will see a low-inflation economy that could grow faster if policy weren’t too tight. This duality confirms a 25 bp cut in September, not the optimal 50 bp.

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