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TRENDMACRO LIVE!

On the July Jobs Report

Friday, September 4, 2009

Donald Luskin

Job losses continue to slow, but unemployment is more of a "roach motel" than ever.

[This morning's Employment Situation Report](#)

confirms our macro view -- the recession is over, but recovery will be slow (see, most recently, ["Muted Celebration"](#) September 3, 2009). We hardly need to point out how favorably this morning's announced net loss of 216,000 jobs compares to the six-month string of 500,000-plus losses from November 2008 to April. But looking deeper, there has been no improvement in the jobs market at all, and indeed we see some worsening.

Update to strategic view

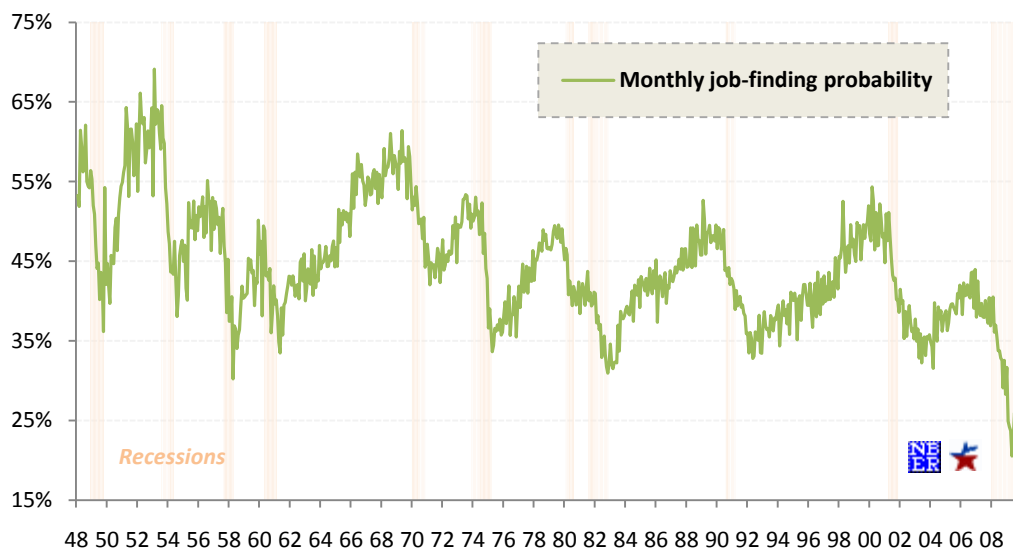
US MACRO: The August jobs report shows ongoing improvement in net job losses, but a worsening in the deeper inability of the economy to produce new jobs to re-employ the already unemployed. This confirms the view that the recovery from recession will be slow.

[\[see Investment Strategy Dashboard\]](#)

Yes, the economy is now losing fewer jobs, but *losing jobs has never been the problem*. Proof: at the peak of this recession, initial jobless claims peaked at only 0.49% of the labor force, while in the 1982 and 1975 recessions they peaked at 0.77% and 0.85%, respectively. The problem has been that *the economy has not been able to create new jobs* to re-employ separated workers (see ["The Square Root of Recovery"](#) July 2, 2009). With today's jobs report, that

problem stands at its worst level in the history of the data.

The key indicator of this is the August rise in the number of unemployed persons by 466,000 and the simultaneous reduction in the number of persons unemployed for



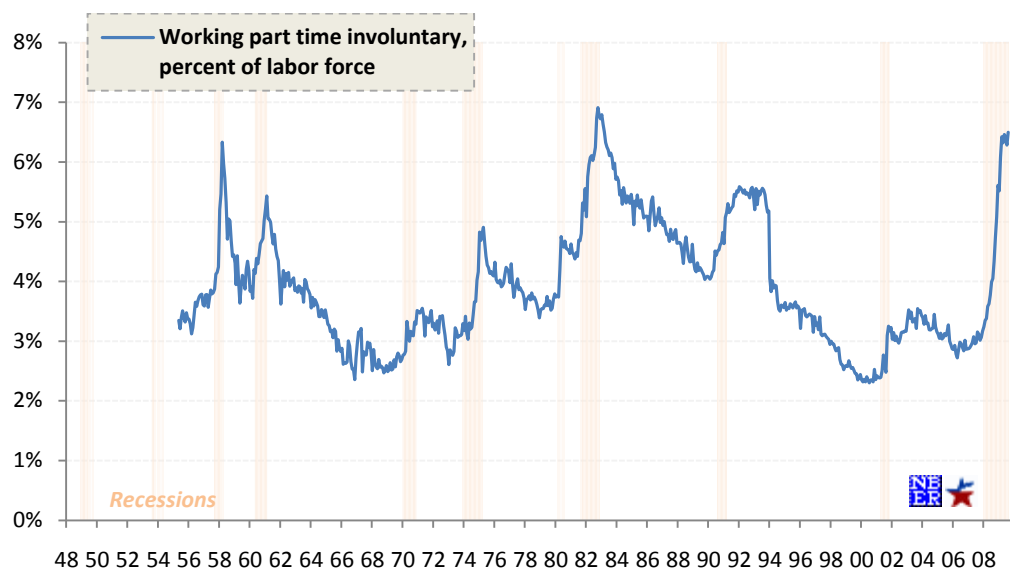
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less than five weeks by 216,000. That produces a sharp fall to new all-time lows in the monthly job-finding probability, to 19.8% (see the chart on the previous page). That can be understood as the percentage chance that an unemployed person will become re-employed within one month, what labor economists call the "unemployment outflow rate." It indicates that unemployment now is a "roach motel" -- once a worker gets in, he can't get out.



Another related indicator is the rise in the number of persons working part-time involuntarily by 278,000. At 6.5% of the workforce (see the chart at left) -- nearly an all-time record -- such persons represent an inventory of easily available workers who, in a recovery, will likely have to be burned through

before employers are willing to go to the expense of hiring entirely new workers. Thus even as aggregate hours worked improves in the future (an improvement of which we saw none in this morning's report, incidentally), the number of part-time workers going back to full-time will be a barrier to a significant decline in the unemployment rate. As both a statistical matter and a miserable reality on the ground, this will present an ongoing problem to the Fed and other policy-makers, even as the economy visibly improves.

BOTTOM LINE: The August jobs report shows ongoing improvement in net job losses, but a worsening in the deeper inability of the economy to produce new jobs to re-employ the already unemployed. This confirms the view that the recovery from recession will be slow. ▶