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TRENDMACRO LIVE!

On the November Jobs Report

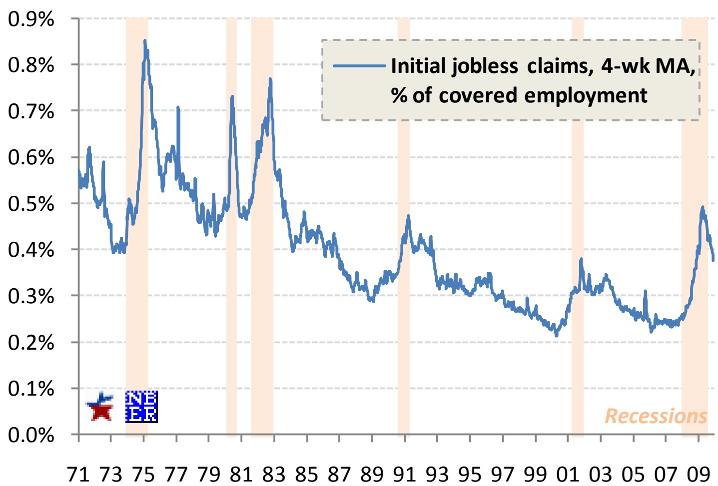
Friday, December 4, 2009

Donald Luskin

Under the upside surprise in headline jobs, some tiny improvement in key labor trends.

Update to strategic view
US MACRO: This morning's upside surprise in both headline employment numbers and important internal indicators of job-creation may not be a durable game-changer, as it comes amidst a spate of weakening macro indicators. **US STOCKS, GOLD:** The Dubai debt crisis quickly resolved without catalyzing a panic, yet stocks haven't managed to make a close above the pre-Dubai high. This morning's jobs numbers may trigger a brief breakthrough, but we still expect and hope for a healthy correction to give dangerously over-extended stocks a much-needed rest. Gold dropped sharply on this morning's job news, as markets upgrade the likelihood of the Fed backing away from excessive ease. The Fed will need much more than this to remove the liquidity safety net, and we expect to buy the dip on any correction in gold.
[see Investment Strategy Dashboard]

The unemployment rate ticked down in this morning's November Employment Situation report, suggesting that White House spokesman Robert Gibbs' inappropriate hint yesterday to the contrary was not insider-information, but rather just plain wrong. This, along with a smaller than expected near-zero drop in payroll jobs, and upward revisions to the previous two month's numbers, comes as very good news after a spate of disappointing macro data -- declining capital goods orders, a lower than expected ISM manufacturing index, and a contracting ISM services index. It builds on the ongoing sharp drop in initial jobless claims, the April peak in which was our first "green shoot" -- and historically, an infallible recession-end indicator (see "Stress Test for T-Bonds" May 8, 2009). This morning's happy surprise is all the more encouraging because we see in it small indications of job creation, not just the cessation of job losses -- which is all one can see in the new claims date. Job losses have not been an especially important element in this recession. They may seem so, since the peak in claims at 658,000 almost matches the record of 674,000 in 1982 -- but the



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covered workforce has grown by more than half since then, making last April's peak, as a percentage of the workforce, actually rather insignificant historically (see the chart at on the previous page).

Again, in *this* recession, the problem has not been job *losses*, but the *lack of new job creation.* So even job losses running at levels surprisingly low for such a serious recession have nevertheless accumulated into a serious unemployment rate. Hence the need for the political theatre of yesterday's White House jobs summit ([click here]() to let the White House know you want to host a "jobs discussion" in your community). Happily, this morning's employment report shows some small improvement on this score, following months of relentless weakening.

Our key indicator continues to be the "monthly job-finding probability" -- the likelihood that an unemployed worker will be able to become employed within a single given month. It now stands at 21.7% -- meaning that a jobless person has slightly better than a one-in-five chance of getting a job in the coming month. Though barely visible in the chart (above), the good news is that this is an improvement from last month's all-time lows at 19.2%. But what remains troublesome is that even at the peak of the previous expansion in 2007, this measure of the availability of new jobs never recovered to anywhere near the peaks seen in previous expansions. In this dimension, the entire previous expansion -- not just its initial recovery phase -- was jobless. With that in mind, starting now from all-time lows, we should not set our hopes too high for the employment picture in the present recovery.

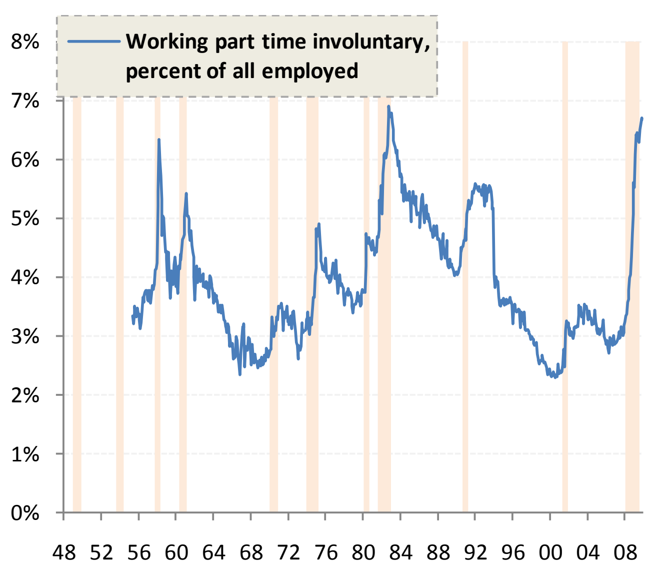
Key documents

Many clients ask us how the "monthly job-finding probability" is calculated. The probability *f* is

$$f_t = 1 - \frac{u_{t+1} - u^s_{t+1}}{u_t}$$

where *u* is total unemployed workers, and u^s is workers unemployed for less than five weeks. From ["The Cyclical Behavior of Equilibrium Unemployment and Vacancies"]() by Robert Shimer, *American Economic Review*, March, 2005.

[Client Resources home]



We also saw in this morning's jobs data a microscopic but welcome improvement in the percentage of the employed labor force working part-time involuntarily, to 6.68% down from last month's 7.01%. Again, the improvement is barely visible in the chart (at left), leaving this statistic virtually at

And incidentally...

Involuntary part-timers are at cycle highs, and probably at all-time highs, too. In the chart at left, the sharp drop in 1994 is the result of changes in the survey definitions underlying this statistic, with the effect of making it look better from that point on.

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cycle highs. These part-time workers represent a "gray market" inventory overhang in the jobs environment. Employers will likely prefer to restore these workers to full employment as the economy improves, rather than bearing the costs of employing entirely new workers. It would be a sign of recovery if they were to start working full-time, but that would not result in the employment of any worker now fully unemployed. And because these part-timers are not counted as officially unemployed, their working full time would have no effect on the reported unemployment rate.

BOTTOM LINE: This morning's upside surprise in both headline employment numbers and important internal indicators of job-creation may not be a durable game-changer, as it comes amidst a spate of weakening macro indicators. The Dubai debt crisis quickly resolved without catalyzing a panic, yet stocks haven't managed to make a close above the pre-Dubai high. This morning's jobs numbers may trigger a brief breakthrough, but we still expect and hope for a healthy correction to give dangerously over-extended stocks a much-needed rest. Gold dropped sharply on this morning's job news, as markets upgrade the likelihood of the Fed backing away from excessive ease. The Fed will need much more than this to remove the liquidity safety net, and we expect to buy the dip on any correction in gold.