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TRENDMACRO LIVE!

On the February Jobs Report

Friday, March 5, 2010

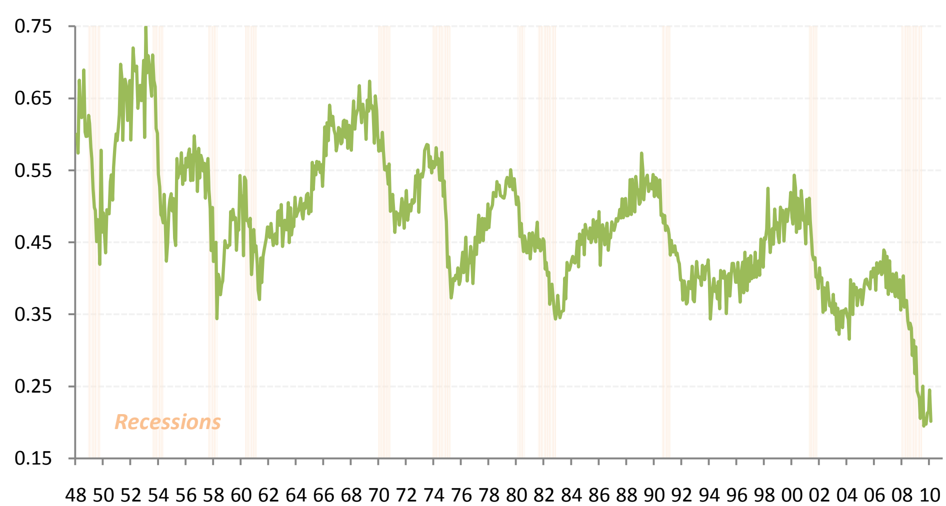
Donald Luskin

It makes recession-end "official," but leaves a slow road back to full employment ahead.

Machinations of some economists to produce a pessimistic blizzard-adjusted whisper-number turned out to be too clever by half, with the loss in this morning's February employment report of 36,000 payroll jobs coming in slightly better than the level of conventional expectations. But we wouldn't leap to interpret this as a sign of any great latent strength in the labor market. The reality is that last month's blizzard probably did interfere with some indeterminate number of hirings -- but at the same time, it could just have easily interfered with firings, or for that matter driven new employment aimed at remediation. We'll review in a moment our favorite indicators of labor market internals, which are not especially encouraging. But all in all, we see this morning's numbers as fitting perfectly into the established trend of labor market stabilization, leaving a long and rocky road back to full employment still stretching out into the future.

- The best news is that this morning's employment data finally completes the long-awaited recession-end signal from the

Monthly job-finding probability (the "outflow rate" from unemployment)
Seasonally adjusted



Source: Bureau of Labor Statistics, TrendMacro calculations per Shimer (2005)

Update to strategic view

US MACRO: This morning's small loss in payroll jobs was sufficient to finally confirm the end of the re recession, backdated to May 2009. But it reveals no new dynamism in the labor market, and points to continued high unemployment throughout this year.

FED FUNDS: Only an upside surprise against too-low blizzard whisper-numbers, this morning's small loss in payroll jobs won't change the Fed's view of the labor market. With the unemployment rate likely stuck in the 9% range all year, the funds rate should hold at or near zero.

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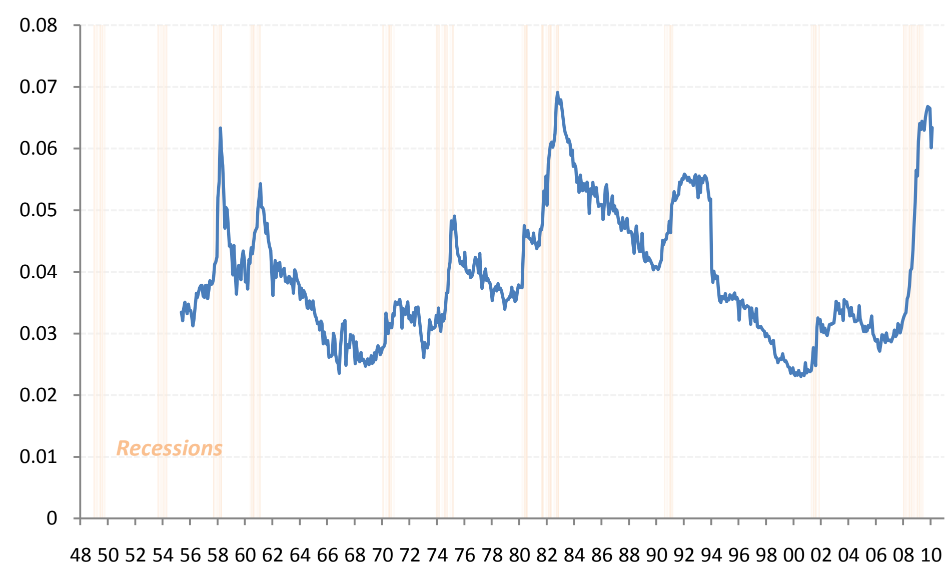
uncannily reliable business cycle timing model of UCLA econometrician Edward Leamer. Based on this model, which uses as inputs changes in the unemployment rate, in payroll jobs, and in industrial production, there has been enough sustained recovery to justify the NBER's now "officially" backdating the end of the recession at May 2009. Payroll jobs was the last input to fall into place, and this morning's small loss was good enough to do it.

That said, there was nothing in this morning's report that changes our view that the economy is in a mere recovery, not yet a robust expansion (see, among many others, "The Case for Ambivalence, Volume Three" March 4, 2010). The economy is still not strong enough to generate sufficient new employment to make much of a dent in the great overhang of joblessness.

The monthly job-finding probability fell to 20.1%, from last month's sharply improved 24.5% (please see the chart at the bottom of the previous page, and "PIIGS, Panic and Jobs" February 5, 2010). That means that the odds against an unemployed person finding a new job within a month fell to 4-to-1, from 3-to-1. This isn't a new all-time low, but it's close. It occurred by unemployment rising by 34,000, but at the same time the number of workers unemployed for only five weeks or less falling by 260,000. It's the perfect portrait of the ongoing trend: the labor market has stopped actively shedding jobs, but it's not generating sufficient new ones to move the needle on the unemployment rate.

Similarly, the portion of the employed workforce working part-time involuntarily gave back much of last month's improvement, rising to 6.34% from 6.01% (please see the chart below). This represents an inventory

Portion of employed workforce working part-time involuntarily
Seasonally adjusted



Source: Bureau of Labor Statistics, TrendMacro calculations

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Recommended Reading

How to compete and grow: A sector guide to policy
McKinsey Global Institute
March 2010

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Key documents

What's A Recession Anyway?
Edward Leamer, 2008

The Cyclical Behavior of Equilibrium Unemployment and Vacancies
Robert Shimer, 2005

[Client Resources home]

overhang of human capital that must be burned through before any outright new hiring can take place. These workers do not count as officially unemployed, so until that happens, the unemployment rate will likely stay stuck in the 9% range.

Bottom line

This morning's small loss in payroll jobs was sufficient to finally confirm the end of the re recession, backdated to May 2009. But it reveals no new dynamism in the labor market, and points to continued high unemployment throughout this year. Only an upside surprise against too-low blizzard whisper-numbers, this morning's small loss in payroll jobs won't change the Fed's view of the labor market. With the unemployment rate likely stuck in the 9% range all year, the funds rate should hold at or near zero.