Trend Macrolytics, LLC
Donald Luskin,
Chief Investment Officer
Thomas Demas,
Managing Director

TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 2, 2010
Donald Luskin

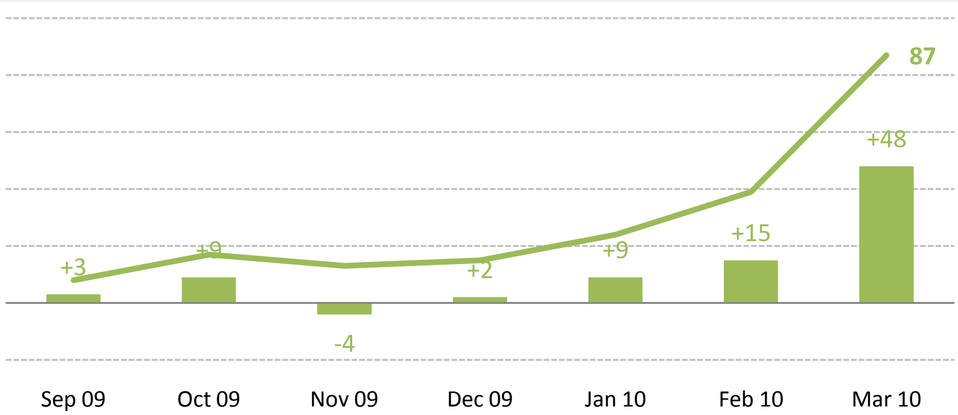
A weak report: employment and unemployment are growing at the same time.

It's the paradox we've expected: this morning's March employment report showed both employment growth and worsening unemployment (see "March FOMC Preview" March 15, 2010). Also as expected, such growth as there was came in weak, though there were small upward revisions to some prior months. In fact, our favorite indicators of labor market activity considerably worsened. *We see nothing in this morning's numbers to change our view that the Fed will continue to keep itself on hold at near-zero interest rates for an "extended period."*

For March, the unemployment rate ticked *higher* by six tenths of one percent, but not enough to move the rounded headline statistics from 9.7%. Non-farm payrolls grew at a lower than expected 162,000 net. On the one hand, that miss may have been due to a smaller than expected 48,000 temporary census hires. Yet the fact that these hires exist at all is an economically meaningless upward distortion in reported job creation. Without it, March would have produced only 114,000 new payrolls.

Understanding the distorting effect of temporary census workers in jobs statistics this season is both important and difficult. There are now 87,000

Temporary census workers ■ Monthly change
Thousands, not seasonally adjusted



Source: Bureau of Labor Statistics

Update to strategic view

US MACRO: The economy is finally growing jobs, but not many, and not enough to absorb new entrants into the labor force. This morning's jobs report is being spun positively, but we see nothing but deterioration in our favorite indicators of labor market activity.

FED FUNDS: With unemployment rising in this morning's jobs report, both in absolute terms and as a fraction of the labor force, we see nothing that will move the Fed off its commitment to an "extended period" of near-zero rates.

[Strategy Dashboard home]

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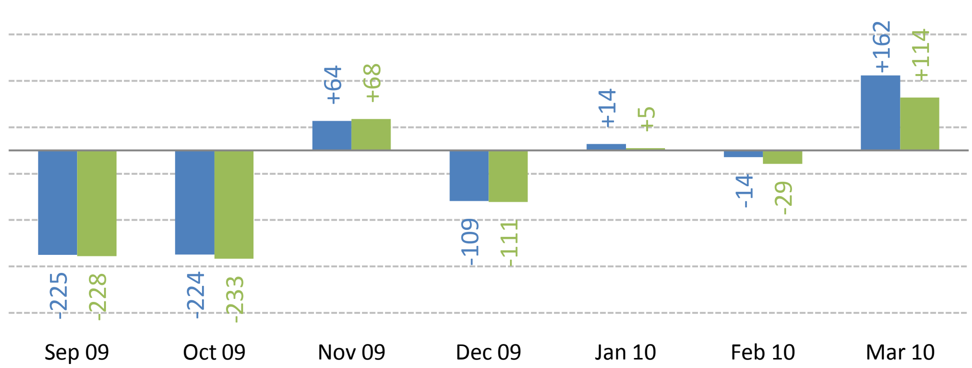
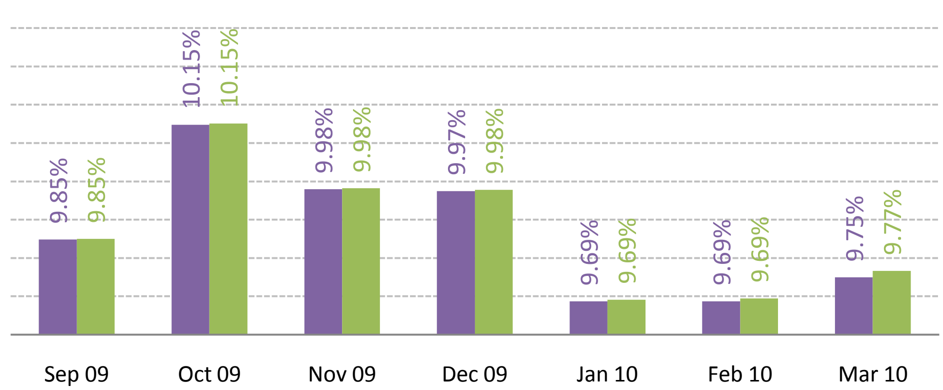
census workers (please see the chart at the bottom of the previous page), and something like another 600,000 will be hired over the coming several months, and they will all roll off well before the end of the year. The number of these jobs is reported each month as part of the Bureau of Labor Statistics' Establishment Survey, so adjusting the payroll figures is a straightforward matter (please see the first chart below).

But the Bureau makes no attempt at all to account for them in its alternate "household" survey, so we have no hard data on how they affect the unemployment rate, or the other subtler measures of labor market activity that we prefer. The key missing information is that we don't know where these hires *come from* -- from the ranks of the unemployed, outside the labor force, or are they second jobs for the already employed? These questions matter for the unemployment rate, or any statistic that looks at the size and characteristics of the overall labor force. If we assume that 25% of the census workers come from the unemployed, 50% from outside the labor force, and 25% as second jobs, then we can calculate that the reported unemployment rate would be slightly higher without including them (please see the bottom chart below). Remember, the unemployment

Monthly change in non-farm payrolls **Without census workers**
Thousands, baseline seasonally adjusted



Unemployment rate **Without census workers**
Thousands, baseline seasonally adjusted; Assumes 50% of census workers from unemployed, 25% second job of employed, 25% from outside the labor force



Source: Bureau of Labor Statistics, TrendMacro calculations

Contact TrendMacro

On the web at
www.trendmacro.com

Donald Luskin
Menlo Park CA
650 429 2112
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

[About us]

Key documents

The Impact of 2010 Census Operations on Jobs and Economic Growth
Economic and Statistics Administration, Department of Commerce

[Client Resources home]

rate rose this month *even including* the census workers. Without them, it would have risen more, and been worse.

This would not be so if we assumed that all the census workers came from the ranks of the unemployed. But we think that would be a bad assumption. Robert Shimer, whom we regard as today's leading labor econometrician, told us this week:

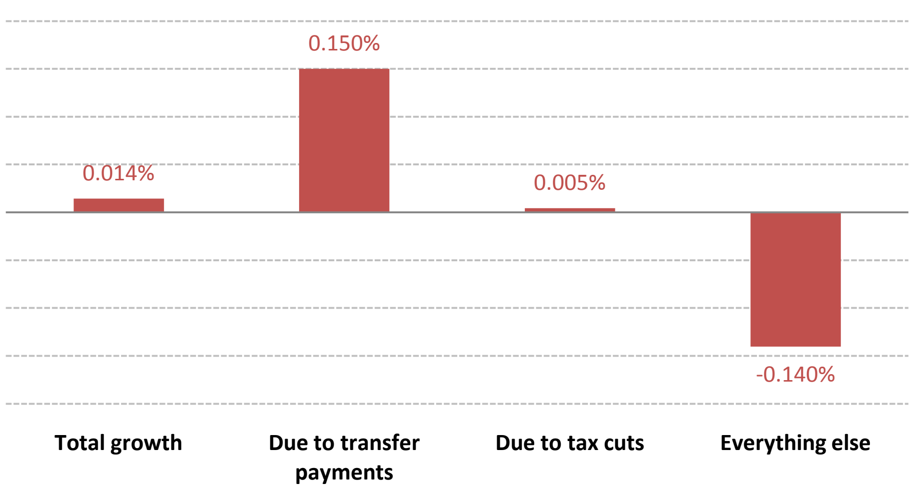
> …you won't see a lot of unemployed workers taking these jobs, because they are part time and temporary. To the extent workers would have to give up their unemployment benefits, it is not a great proposition."

The Department of Commerce [makes]() an opposing argument, noting that the sheer number of unemployed persons is quite high, so we are likely to see many census jobs filled by them. But Shimer's argument is more persuasive, because it takes into account the unusually strong current role of transfer payments in incomes. Thanks to today's highly unusual extension of jobless benefits, and other income supports as part of last year's "stimulus," transfer payments are now consistently accounting for the dominant share in income growth. For example, in February disposable personal income grew by only one and one half hundredths of a percent. But it would have been negative if it were not for a fifteen hundredths of a percent contribution from growth in transfer payments (see the chart below). Chalk up another Pyrrhic victory for the law of unintended consequences.

So with these cautions about the "household" survey in mind, we can try to look at some of our favorite labor market indicators.

First, while much has been made in media chatter this morning about the

Key market-based stress indicators during Greek credit crisis
Indexed to 100 on January 1, 2010



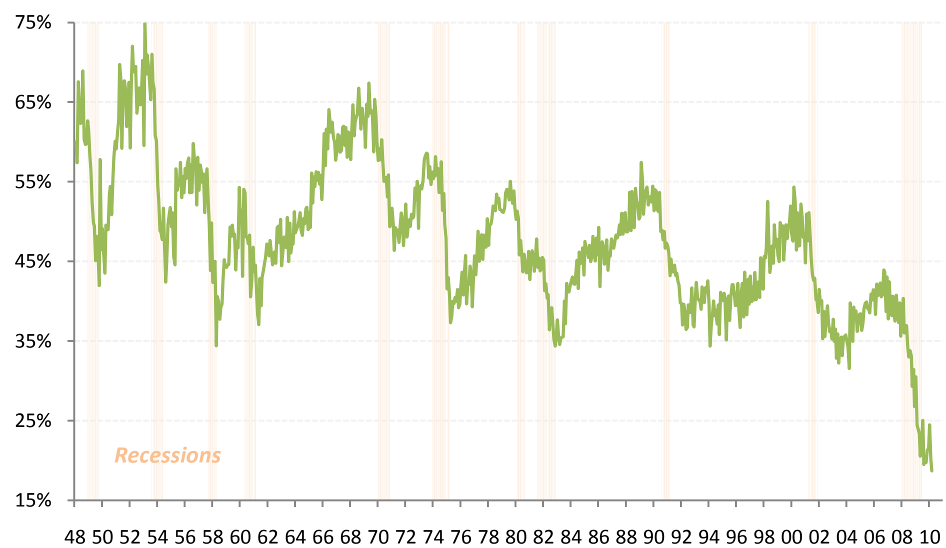
Source: Bureau of Economic Analysis, Trend Macro calculations

264,000 growth in net jobs reported in the "household" survey -- making cumulatively 1.1 million net jobs this year -- the reality is that this wasn't a large enough number to accommodate new entrants into the labor force. In March, while employment rose by 264,000, the labor force grew by far more: 398,000. That means the unemployment rate among new entrants in March was 33.7%, and there were enough of them to move the overall unemployment rate up by more than one half of one percent.

Second, the monthly job-finding probability -- the "outflow rate" from unemployment -- has now fallen to new all-time lows at 18.7% (please see the chart below). In other words, if you are currently unemployed, you only had an 18.7% chance of finding work in March. For you, employment was a long-shot, with odds more than 4:1 against you. This is the result of the fact that the overall number of unemployed *rose* by 134,000 in March, while the number unemployed for less than five weeks *fell* by 104,000. This means that a rising number of unemployed people found it increasingly difficult to stay unemployed for only a short time -- joblessness continues to be a "roach motel." Incidentally, we estimate that the "outflow rate" would have been even worse without including temporary census workers, by about nine basis points.

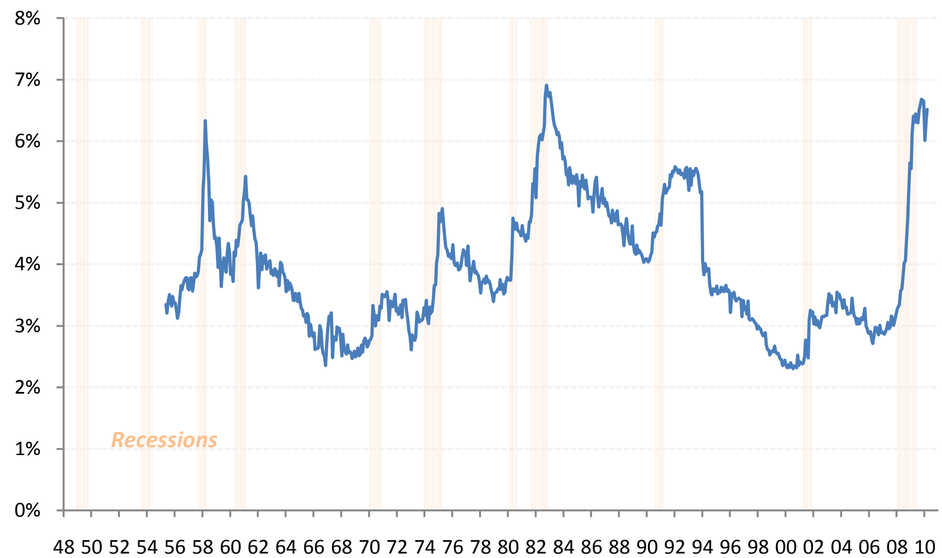
Finally, the portion of the labor force working part-time involuntarily rose to 6.52% -- not a new record for this cycle, but the highest value this calendar year (please see the chart on the following page). As we point out each month, this represents a gray-market inventory of human capital that must be liquidated before unemployment can start to come down in a significant way. Large employers of part-time workers such a Wal-Mart will always prefer giving additional hours to existing workers as the economy

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



Source: Bureau of Labor Statistics, TrendMacro calculations per [Shimer (2005)] improves, rather than having to bear the costs and risks of hiring entirely new workers from among the ranks of the unemployed. As part-timers get more and more work, hours worked and incomes will improve. That's all good for the economy -- but the unemployment rate will not move as a result of it, because these part-timers are not counted as unemployed.

Portion of employed workforce working part-time involuntarily
Seasonally adjusted



Source: Bureau of Labor Statistics, TrendMacro calculations

Bottom line

The economy is finally growing jobs, but not many, and not enough to absorb new entrants into the labor force. This morning's jobs report is being spun positively, but we see nothing but deterioration in our favorite indicators of labor market activity. With unemployment rising in this morning's jobs report, both in absolute terms and as a fraction of the labor force, we see nothing that will move the Fed off its commitment to an "extended period" of near-zero rates.