

TRENDMACRO LIVE!

## On the April Jobs Report

Friday, May 7, 2010

**Donald Luskin**

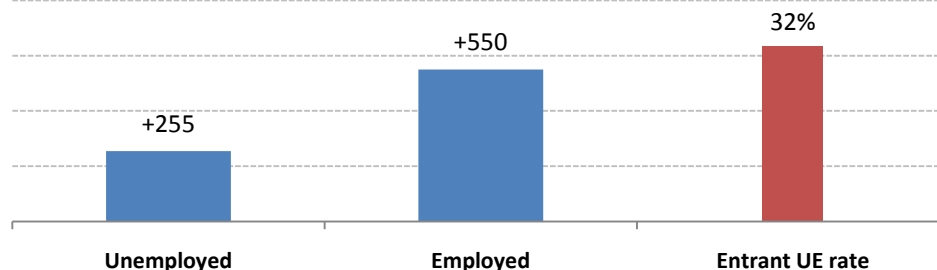
**The duality continues: growing employment and growing unemployment at the same time.**

[This morning's jobs report](#) with a headline gain of an above-consensus 290,000 payroll jobs, plus triple-digit upward revisions to February and March's payrolls, ought to have been the stuff of a major rally in stocks and drop in bonds. Sadly, no. This tells us that yesterday's volatility was only exacerbated by technical events. Fundamentally, as we've been warning, markets had become overripe for correction and consolidation, vulnerable to any shock that may have come along (see "[Gold is the Strongest Currency](#)" May 6, 2010). The jobs numbers are an insufficient shock absorber. While the headline numbers made the half-full glass of the US labor market seem a little fuller, for those of us who see the glass as half-empty, it got a little emptier. *Both* views are true. As we've been predicting, we're seeing employment and unemployment both growing at the same time (see "[The Case for Ambivalence, Volume Three](#)" March 4, 2010). Growth in employment locks in the consumption-led recovery from recession (see "[The Consumer: QED](#)" April 16, 2010). But growth in unemployment, with the unemployment rate ticking up to 9.9% in April, tells us that we're still a long way from moving from recovery to expansion (see "[The Scariest Chart in Economics](#)" April 27, 2010).

The key to this paradox is growth in the labor force. In April, 805,000 persons joined the labor force. 550,000 came in employed, and 255,000 came in unemployed (please see the chart below). So the unemployment

### Growth of the labor force, April 2010

Thousands



Source: Bureau of Labor Statistics, TrendMacro calculations

### Update to strategic view

**US STOCKS:** The long-awaited correction is upon us. The travails of Europe have been the proximate trigger, but it was inevitable, given the widespread excess of bullishness about a "V-shaped recovery." At the moment we are agnostic as to whether yesterday's panic marked the lows in this correction, but we feel strongly that this is only a correction. From here we think stocks will have a long struggle to challenge the April highs.

**US MACRO:** The labor market continues to heal, but it has so much lost ground to make up, we have many more months ahead of both employment and unemployment at the same time.

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rate among these new entrants was 32%. Throwing them into the mix alongside a pre-existing unemployment rate of 9.7% was enough to move the overall rate to 9.9%.

805,000-person growth in the labor force is a remarkably large number, speaking volumes about the recuperation of the jobs market. After an historic drop in the labor force in 2009, this looks on the chart like the "V-shaped recovery" that is eluding the economy by so many other measures (please see the chart below). We're now within shooting distance of making a new all-time high in the size of the labor force. Just 241,000 more persons would do it, and that could easily happen next month. The problem is that at its peak in May 2009, the labor force was already significantly below its long-term trend -- whatever the virtues of the previous expansion, it was not characterized by robust job creation. As the labor force dropped sharply last year at the worst of the recession, the trend marched on -- so making new highs in the absolute size of the labor force leaves us even further below trend. Until we catch up, which could easily take the rest of the year, don't expect the unemployment rate to budge from about where it is now. Every month, more new entrants and re-entrants to the labor force will find jobs -- but as with this month, many will come in unemployed.

## Contact TrendMacro

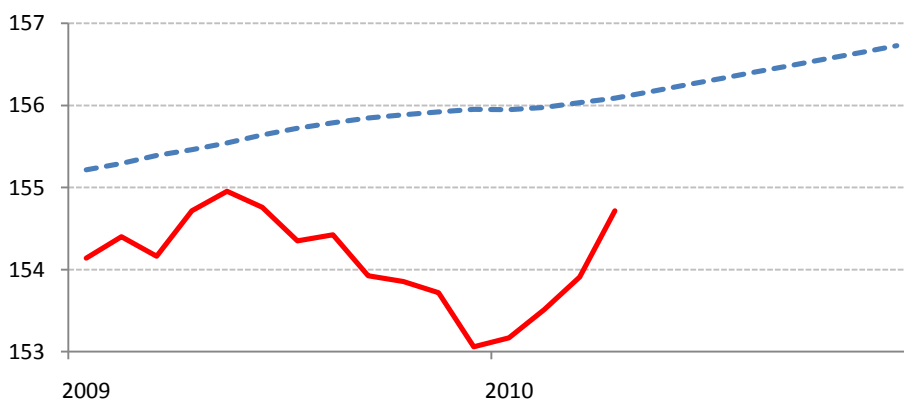
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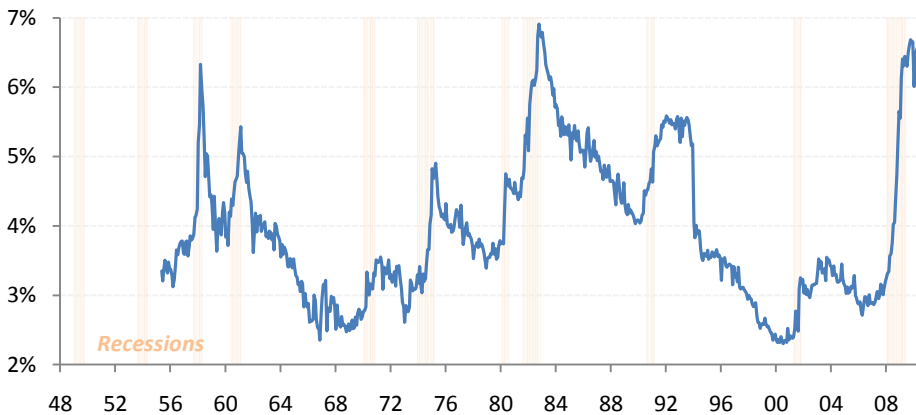
— Civilian labor force - - 10-year linear trend  
Millions of persons



Source: Bureau of Labor Statistics, TrendMacro calculations

Exacerbating the stickiness of the unemployment rate is the still very high percentage of the labor force working part-time involuntarily (please see the chart at the top of the following page). This peaked at a near-record 6.67% in November (actually, this was surely a record surpassing the apparent 1982 peak, as the methodology was changed by the Clinton Labor Department in 1994 in such a way as to lower the number of involuntary part-timers going forward). Today it stands barely improved at all at 6.56%, with only 73,000 persons going off involuntary part-time status since the worst (and we don't know whether they went full-time, were fired, or quit). This tiny improvement contrasts to the 5.2 million expansion of involuntary part-timers since March 2006. These persons

### — Portion of employed labor force working part-time involuntarily

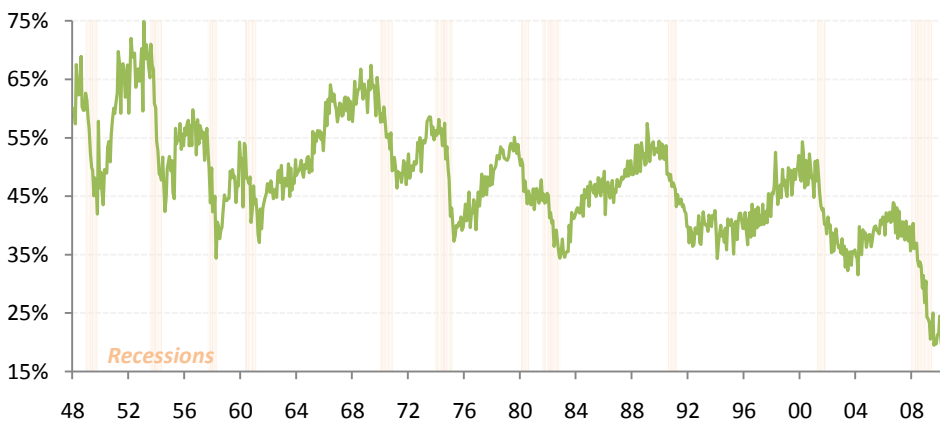


Source: Bureau of Labor Statistics, TrendMacro calculations

represent an army of willing workers, conveniently already on the payroll, who will be at the head of the line for additional hours worked, and will crowd out wholly unemployed new entrants.

To be sure, when the involuntary part-timers convert to full-time as the recovery continues, that's an unalloyed good. It means more hours worked, more income and more consumption. But the fact remains that it is a barrier to new employment. The best portrait of this is the fact that the monthly job-finding probability -- that is, the chances of getting a job within one month if you are unemployed -- has fallen to a new all-time low of just 18% (please see the chart below).

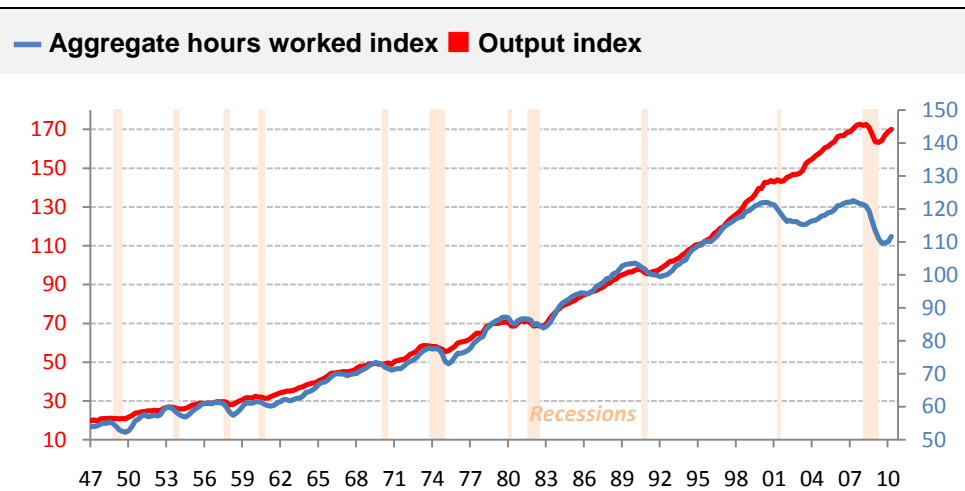
### — Monthly job-finding probability (the "outflow rate" from unemployment)



Source: Bureau of Labor Statistics, TrendMacro calculations per [Shimer \(2005\)](#)

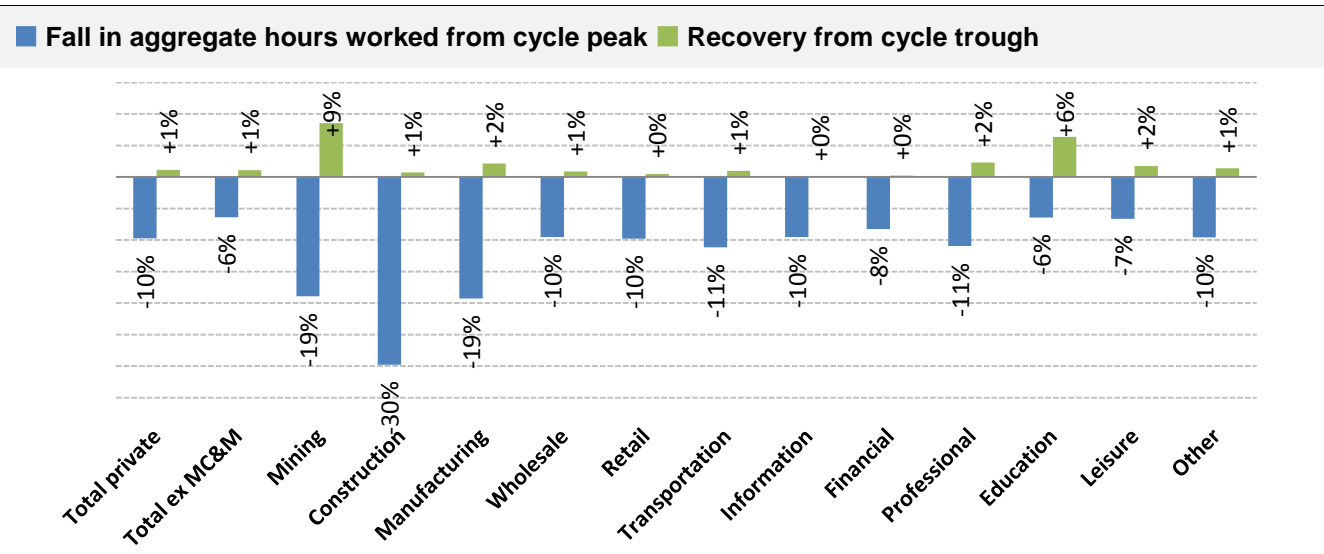
The great question overhanging the labor market is the historic gap between output and hours worked. In the last recession, aggregate hours

worked fell below the lows of the prior recession, though output did not. And while output has recovered almost back to peak levels, aggregate hours worked have barely increased at all (please see the chart below, and again, see ["The Scariest Chart in Economics"](#) April 27, 2010).



Source: Bureau of Labor Statistics, TrendMacro calculations

This can't be explained away by the sharp drops in hours worked in the manufacturing, construction and mining sectors. These were indeed hit the hardest, but even without them, overall aggregate hours worked fell 6% (please see the chart below). Mining has staged a nice recovery in hours worked -- up 9% from the trough -- but it represents a miniscule fraction of overall hours worked in the economy. Manufacturing and construction, the sectors where an improvement could really move the needle on overall aggregate hours worked, have shown little recovery. The only sector in which hours worked are at new highs now is education. No others are



Source: Bureau of Labor Statistics, TrendMacro calculations

even close. And the information and financial sectors are making new lows.

If you want to see the glass being half-full, call it productivity. But going forward, for the gap between output and hours worked to contribute to corporate earnings *growth*, it will have to get wider than it already is. You could see it as a great opportunity for growth in jobs, as companies scramble to maintain output. But we're unaware of any trains that were running on-time before that aren't running on time now at lower levels of staffing. We appear to have on our hands a fundamental break-down in the generations-long trend in labor growth, and the relationship between labor and output.

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### **Bottom line**

The long-awaited correction is upon us. The travails of Europe have been the proximate trigger, but it was inevitable, given the widespread excess of bullishness about a "V-shaped recovery." At the moment we are agnostic as to whether yesterday's panic marked the lows in this correction, but we feel strongly that this is only a correction. From here we think stocks will have a long struggle to challenge the April highs. The labor market continues to heal, but it has so much lost ground to make up, we have many more months ahead of both employment and unemployment at the same time. ▶