

TRENDMACRO LIVE!

## On the May Jobs Report

Friday, June 4, 2010

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It's plain to see in the data. The recovery isn't jobless, it's expansion-less.

[This morning's May jobs report](#) reveals not the usual jobless recovery, but our unusual "expansion-less recovery." Specifically, once again payroll jobs increased, this month by 20,000, after adjusting the headline 431,000 for hiring 411,000 temporary census workers ("TCW"). That's pretty weak, especially for a supposed "V-shaped recovery." But at least it's not jobless. At the same time, the unemployment rate fell, whether or not TCW are included, because the economy isn't growing fast enough to keep new entrants and re-entrants coming into the labor force. It's expansion-less.

How is it that the unemployment rate went down? The chart below diagrams it, based on data in the "household survey" (we use it here because the headline data from the "payroll survey" only tracks employment, not unemployment). In April the unemployment rate rose to 9.86% (9.89% ex-TCW). In May, the number of *unemployed* decreased by 287,000 (only 82,000 ex-TCW) -- think of these as people who left the labor force who gave up trying to find a job. The number of *employed* decreased, too, by 35,000 (445,000 ex-TCW). Together, the loss of both employed and unemployed drove down the size of the labor force by 322,000 (by 527,000 ex-TCW). The number of unemployed fell more, proportionately, than the labor force -- and that's what drove down the unemployment rate, which is the portion of the labor force unemployed.

### Update to strategic view

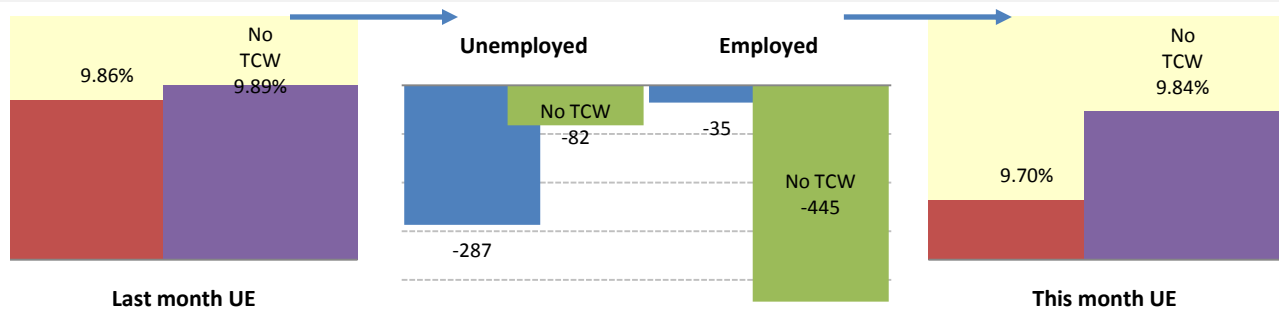
**US MACRO:** Another weak jobs report. The economy can grow fast enough to generate a few jobs, but not nearly fast enough to dent the unemployment rate without workers exiting the labor force.

**US STOCKS:** The panic has abated, but if the economy is as weak as this morning's jobs report, earnings upgrades won't keep driving stocks higher -- they're already stalling out. Don't expect stocks to exceed their April highs anytime soon.

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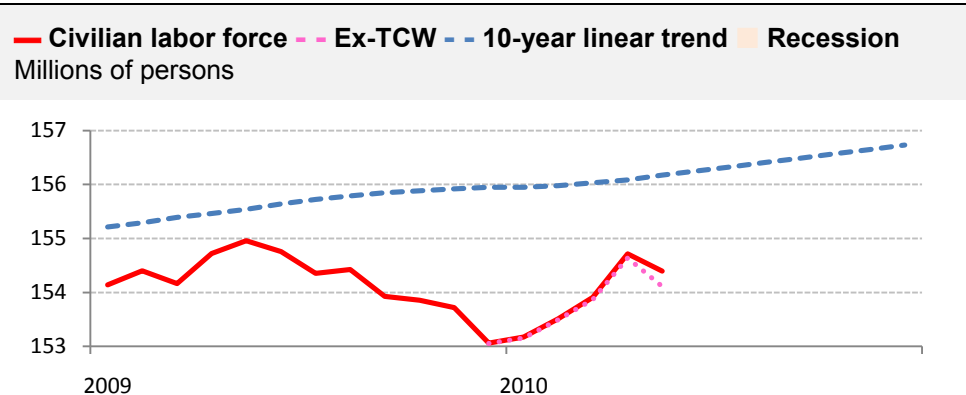
### Changes in the unemployment rate as a function of changes in the labor force, May 2010

TCW = temporary decennial census workers; employment in thousands



Source: Bureau of Labor Statistics, TrendMacro calculations

We're surprised and alarmed by the drop in the size of the labor force, considering how far below trend we are. We were already below the rising long-term trend at the last peak in May 2009 (please see the chart below), and in any kind of recovery, we would expect the labor force to grow from here -- even if it has a very difficult time getting back to trend. Though labor has been seriously underutilized for the past decade, even in the previous expansion, it is even more so today.



Source: Bureau of Labor Statistics, NBER, TrendMacro calculations

Let's do a quick round-up of our key labor market indicators that we track every month.

One bright spot is hours worked, which grew by 0.04% in May. But it's a tiny bright spot in a large black abyss. Hours worked fell by a record 10.6% in the recession, and at this point in recovery we should be seeing a much more significant resurgence. (see "[Focus Report: The Train Wreck in Hours Worked](#)" June 2, 2010).

The number of workers employed part-time *involuntary* fell by 32,000. As a fraction of the employed labor force, they fell to 6.32% (it is indeterminate how to adjust for TCW). On the face of it this is good news, but as with the unemployment rate, the reality is that this statistic has only improved because the labor force shrank. Be that as it may, we are left with a large army of underemployed who will crowd out the unemployed as the economy improves.

Finally, the monthly job-finding probability -- the chance of getting a job within one month if you are unemployed -- increased in May to 21.7% (again, it is indeterminate how to adjust for TCW). This is a welcome bounce off last month's all-time lows. But all it means, in context, is that while there are more people unemployed, their chances of getting re-employed quickly are slightly better than last month's record low probability.

This expansionless economy remains incapable of employing its labor force. After so much monetary and fiscal stimulus has been thrown at the problem already, two conclusions are inescapable -- the economy remains

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## Correction

Our June 2 publication "Special Report: The Train Wreck in Hours Worked" contained several data errors, which were reflected in three of the charts. They do not affect any analyses or conclusions, but in the interest of maintaining the highest standards of accuracy, we encourage you to [download a corrected version by clicking on this link](#). Thank you, and we apologize for any inconvenience.

remarkably weak, and the particular forms of stimulus that have been employed have been singularly unsuccessful in kick-starting a jobs cycle.

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**Bottom line**

Another weak jobs report. The economy can grow fast enough to generate a few jobs, but not nearly fast enough to dent the unemployment rate without workers exiting the labor force. The panic has abated, but if the economy is as weak as this morning's jobs report, earnings upgrades won't keep driving stocks higher -- they're already stalling out. Don't expect stocks to exceed their April highs anytime soon. ▶