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On the July Jobs Report

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Another expansionless month for jobs in an ongoing "expansionless recovery."

This morning's July jobs report was a bit if a negative surprise, especially the downward revision of May payrolls by 96,000. But basically this is just another jobs report in the "expansionless recovery" -- an economy that has stopped going down, but isn't going up much either, certainly not as much as some think the history books teach us to expect after a severe recession. We don't see how the FOMC can meet next week in light of this data -- and new manufacturing data this week pointing to likely downward revisions to Q2 2010's already tepid real GDP growth (see "On Q2 GDP" July 30, 2010) -- and not take another small step toward additional easing (see "What Should the Fed Do?" August 5, 2010). Accordingly, futures-implied expectations for the fed funds rate one year forward have fallen to new all-time lows this morning, and reflation-sensitive gold as moved back above $1200.

Two highlights among the key labor market indicators we focus on:

- Taking away the distortion of the loss of 143,000 temporary census worker jobs, payrolls *grew* by 13,000. But according to the household survey (adjusted to a payroll basis), 220,000 jobs were *lost*. Because the payroll survey is biased toward large employers, this implies that the labor market continues to be weakest among smaller businesses. This underscores that uncertainty about future tax rates and regulatory requirements continues to weigh on small firms disproportionately, as they are historically the engine of job creation (see "Good Week for Growth" July 26, 2010).

- We are astonished that the labor force shrank again for the third month in a row after an already historic exodus over the prior year. The drop of 181,000 might partially be explained by the loss of 143,000 temporary census worker jobs -- but probably not much, as it is generally believed that those persons did not come from outside the labor force to begin with. The drop in the labor force allowed the unemployment rate to tick down ever so slightly (from 9.511% to 9.507%), as disproportionately more unemployed persons left the labor force. Otherwise, the unemployment rate would have ticked up slightly, to 9.521%. We continue to expect that the labor force will have to expand again, and that this will

Update to strategic view

US MACRO, FED FUNDS: This morning's jobs numbers repeat a familiar story -- we're in an "expansionless recovery." Small firms continue to lag as job creators, probably held back by uncertainty about future tax rates. Against this backdrop, the Fed seems increasingly compelled to signal at least some small easing measure at next week's FOMC.

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drive a rising unemployment rate at the same time as the overall number of jobs increases.

Changes in the other key labor market indicators we follow were minimal in July:

- The portion of the employed labor force working part-time involuntarily fell slightly to -- 6.14% from 6.20% -- reducing a bit the overhang of human capital awaiting full employment.

- Aggregate hours worked grew by 0.4%, achieved by a smaller number of employed persons each working more hours.

- The labor market became a slightly more dangerous place in July. The probability of an unemployed person *finding a job* within a month *fell* from 22.7% to 21.5%. At the same time, the probability of an employed person becoming *separated* from his existing job within a month *rose* from 2.2% to 2.3%.

Bottom line

This morning's jobs numbers repeat a familiar story -- we're in an "expansionless recovery." Small firms continue to lag as job creators, probably held back by uncertainty about future tax rates. Against this backdrop, the Fed seems increasingly compelled to signal at least some small easing measure at next week's FOMC.

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