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TRENDMACRO LIVE!

On the November Jobs Report

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Donald Luskin

Labor market to the critics: do you still think QE2 wasn't necessary?

There were a few bright spots amidst the disappointment in this morning's November jobs report.

- Payrolls for September and October were revised slightly higher.
- Aggregate hours worked and aggregated earnings grew.
- 103,000 new persons entered the labor force, and that at least indicates increasing confidence that employment might eventually be found. But more than all of those persons came in unemployed, at the same time as overall employment fell by 173,000 -- thus the jolt higher in the unemployment rate to 9.82%.

But the overall weakness shown in this report ought to go some way to disarm the Fed's critics who say that QE2 wasn't necessary, because the economy had already begun to substantively recover without it (see "Eyeing an Exit from "No Exit" November 18, 2010). Our call for a somewhat stronger economy next year (see "Stock Outlook: Differences Make a Difference" November 10, 2010) was not based at all on improving contemporaneous data, of which there is little -- but rather, in part, because we think that QE2 will liberate the economy from the Fed's having been too tight for two years (see, among others, "How to Ease, Not When to Tighten" June 23, 2010). Now we're still in the "expansionless recovery," and this morning's jobs data simply confirms that. The substantive effects of liberation from a too-tight Fed will start to be felt next year. If the labor market has offered this morning an argument against the critics of QE2, then all the more reason to expect a better 2011, because the chances that the Fed might abort QE2 early have been substantially reduced.

Bottom line

Today's jobs numbers show we're still in the "expansionless recovery." The uptick in growth we're looking for will be a 2011 phenomenon, as the economy starts to feel the effects of political stabilization and the Fed ending two years of being too tight. The most conspicuous market moves today have been in gold (rising) and the dollar (falling) -- both reflation-sensitive and moving with the idea that a sluggish jobs report cuts against any doubt that QE2 will be taken to its June 2011 conclusion.

Update to strategic view

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