

TRENDMACRO LIVE!

On the May Jobs Report

Friday, June 3, 2011

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Shouldn't be a surprise -- and believe it or not, there were a couple of bright spots.

How can anyone really have been surprised by [this morning's May employment report](#)? Given the pervasive pessimism we're picking up among clients (see ["Tear Down This Wall of Worry"](#) May 20, 2011), and after a spate of slow macro numbers over the last month (see ["Will the Fed do QE3? Should It?"](#) June 2, 2011) -- including a bad ADP payroll report this very week -- the consensus for non-farm payrolls can't possibly really have been 169,000. We are just as mystified that the ISM manufacturing number reported this week was a surprise, after the regional indices that preceded it were all quite soft. But markets reacted negatively in both cases, so both must have indeed been surprises to some extent.

All that said, obviously this was a weak jobs report, with the putatively disappointing 54,000 non-farm payrolls net gain made worse by downward revisions for the previous two months. The other especially negative elements of the report were the uptick in average duration of unemployment by 1.4 weeks, to 39.7 -- and the associated uptick in the percentage of unemployed persons who are jobless long-term, by 1.7% to 45.1%.

We know no one is going to want to pay attention to the *good* news in this morning's report. But there was some.

- The household survey reported a gain in employment of 105,000, a major improvement over last month's loss of 190,000.
- Adjusting that 105,000 to the [same statistical definition](#) used to define payroll jobs, it's a gain of 123,000. When the adjusted household survey jobs number outperforms the payroll number -- which was only 54,000 -- that implies relative outperformance by the small business sector. That's just where we are most eager to see improvement in this tentative recovery.
- At the same time, the household survey reported a gain in *unemployment* of 167,000. Taken alone that's a bad thing, but in the context of the *employment* gain of 105,000, it means the labor force expanded by 272,000 in May -- and that's a good thing. With that many new entrants into the labor force (only about 80,000 can be explained by demographics), it's not unusual that about two thirds of them would enter unemployed. The important

Update to strategic view

US MACRO: No surprise in this morning's jobs numbers, or at least there shouldn't be. They are consistent with other data showing slow growth in the second quarter. Bright spots are the expansion of the labor force, the outperformance of small business hiring, and the uninterrupted trend higher in aggregate earnings.

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thing is that persons outside the labor force are coming back into it, once again participating in the economy.

- That entirely explains the uptick in the unemployment rate.
- Aggregate weekly earnings grew by 0.4%, leaving the trend rate of growth over the last year entirely intact.

Bottom line

No surprise in this morning's jobs numbers, or at least there shouldn't be. They are consistent with other data showing slow growth in the second quarter. Bright spots are the expansion of the labor force, the outperformance of small business hiring, and the uninterrupted trend higher in aggregate earnings. ▶