

TRENDMACRO LIVE!

## On the June Jobs Report

Friday, July 8, 2011

Donald Luskin

Truly bad, but politically useful. Probably a wash-out marking the end of the soft-spot.

[This morning's June employment report](#) was dreadful in nearly every dimension. In our view it was queued up to disappoint, if only because employment is a lagging indicator, and after a whole quarter's worth of weak macro data we'd gotten our first bad jobs report just last month (see ["On the May Jobs Report"](#) June 3, 2011). Some of that dynamic is reflected in this morning's downward revisions to the prior two month's reported numbers. Nevertheless, this was more of a disappointment than we had in mind. The only thing comforting about it is how disproportionate it seems in relation to the macro weakness that forms its background -- it comes off as an anomaly. If the economic soft-spot is really over, as we believe -- with oil prices off their highs and Japan rapidly coming back online in the global supply chain (see ["Footprints of the Black Swans"](#) June 30, 2011) -- then we'll be able to look back on this as a dramatic wash-out bottom in employment.

- The labor force shrank by 272,000, now 3.9 million below peak. This was accomplished the worst possible way, with a simultaneous increase in unemployment of 173,000 and a decrease in employment of 445,000. By implication, *all* of the

173,000 new unemployed were freshly fired -- *none* were hopeful new entrants into the workforce.

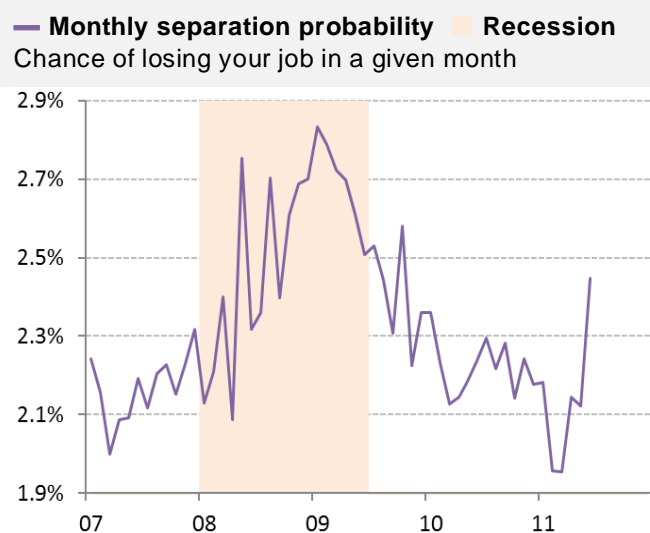
- This is reflected in the "monthly separation probability," which spiked above 2.4%, back to levels not seen since the immediate aftermath of the Great Recession (please see the chart at left).

- As an offsetting bright spot,

### Update to strategic view

**US MACRO:** Employment is a lagging indicator, so it is no surprise to see a bad jobs report after a quarter of weak macro numbers. That said, this morning's jobs report was particularly bad. Usefully, it will move the present debate over deficits away from growth-killing tax hikes. If, as we believe, the economic soft-spot is over than this will stand as a dramatic wash-out bottom in jobs.

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Source: BLS, TrendMacro calculations per [Shimer \(2005\)](#)

the "monthly job-finding probability" rose. This was reflected in the only other bright spot in this morning's numbers, the slight decline in long-term unemployment as a percentage of overall unemployment. But that was only because there were so many new unemployed persons this month -- the *average weeks of unemployment* for all unemployed persons *rose*.

- But enough with the bright spots, such as they are. Aggregate hours worked fell 0.3%, the first sequential monthly drop since the 2009 trough. Unsurprisingly, aggregate weekly earnings fell by same 0.3%.
- On a payroll concept-adjusted basis (for an explanation of this term, see "[On the May Jobs Report](#)"), employment according to the household survey fell by 419,000 more than according to the payroll survey. This implies that small business employment -- the long-term engine of job creation -- performed especially badly last month.

The most upbeat thing we can say about all this is that it has very useful political implications. As the debate over deficits comes to a climax this month, courting the risk of an impending technical Treasury debt default, today's very public evidence of economic fragility should force both sides to proceed with prudence (see "[Chaos in Athens, Progress in Washington](#)" June 20, 2011).

- In particular, we think this moves the debate solidly away from tax hikes. We have regarded the possibility of higher taxes, especially on capital, as the only truly major growth risk in the debate (see "[The Political Brick in the Wall of Worry](#)" May 27, 2011).
- Remember, about a year ago, when four dissident Democratic senators stepped forth and announced advocacy for extending the Bush-era tax rates for everyone, including the so-called rich, they did so on the grounds that it would be imprudent to raise taxes on *anyone* when the economy is weak (see "[Good Week for Growth](#)" July 26, 2010). That irrefutable talking-point is very much back in play.

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## Bottom line

Employment is a lagging indicator, so it is no surprise to see a bad jobs report after a quarter of weak macro numbers. That said, this morning's jobs report was particularly bad. Usefully, it will move the present debate over deficits away from growth-killing tax hikes. If, as we believe, the economic soft-spot is over then this will stand as a dramatic wash-out bottom in jobs. ▶

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## Recommended Reading

### [Quantitative Easing \(QE\) Conference](#)

Federal Reserve Bank of  
St. Louis  
June 30, 2011

### \* [Large-Scale Asset Purchases by the Federal Reserve: Did They Work?](#)

Matthew Raskin, Joseph  
Gagnon, Julie Remache  
and Brian Sack

### \* [The Large-Scale Asset Purchases Had Large International Effects](#)

Christopher J. Neely

### \* [Flow and Stock Effects of Large-Scale Treasury Purchases](#)

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