Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Lorcan Roche Kelly, Chief Europe Strategist
John Clinton, Principal

TRENDMACRO LIVE!

On the July Jobs Report

Friday, August 5, 2011

Donald Luskin

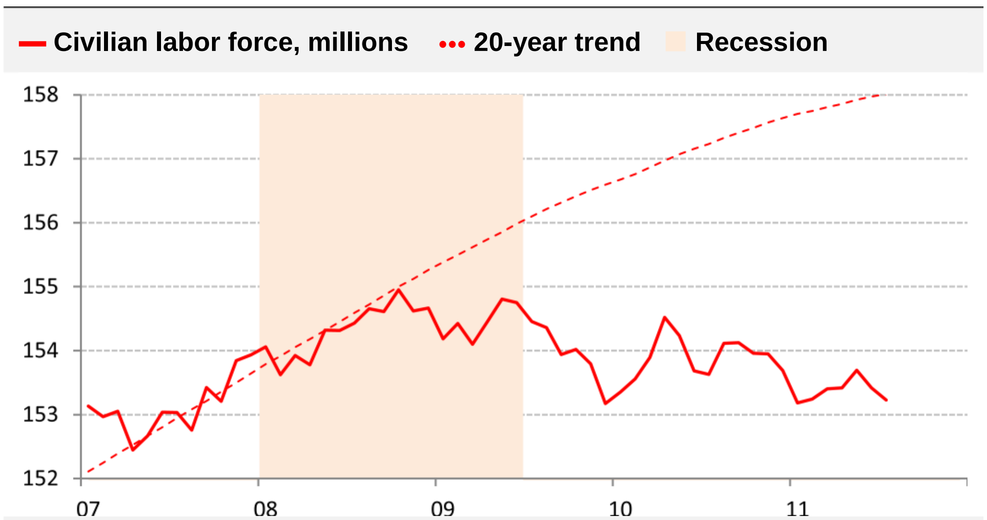
It's a sad thing when a jobs report as weak as this is a big upside surprise.

This morning's July Employment Situation Report beat headline expectations in every respect, with substantial upward revisions to the last two month's dismal reports as a sweetener. But that should do little to modify the now-dominant narrative that we've entered a new global recession. The jobs numbers are still very weak -- maybe it only reflects an ongoing soft-spot, but there is the prospect of far worse numbers next month when the last week's global market panic may well be reflected.

Perhaps the fact that something -- *anything!* -- was actually capable of being a pleasant surprise may take the edge off that panic. But the best we can feasibly hope for is that it won't make it worse. US economic numbers are a side-show at this point. *What matters is Europe*, where the ECB has badly fumbled an opportunity to restore confidence in the imperiled sovereign debt markets and the banking system (see "On the ECB Rate and Bond Buy Decisions" August 4, 2011).

That said, we'll touch on what we see as two salient points in the July jobs numbers -- both negative. While July's numbers were an improvement over June's in almost every respect, these two can't be ignored.

- The size of the labor force declined (please see the chart below).



Source: BLS, TrendMacro calculations

Update to strategic view

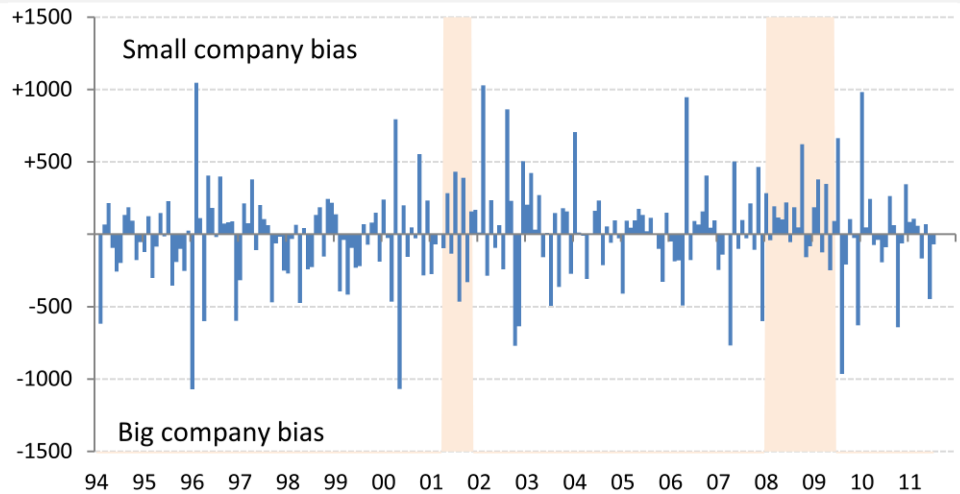
US MACRO: This morning's jobs numbers were a pleasant surprise versus expectations, but were very weak in absolute terms. The unemployment rate fell only because of shrinkage in the labor force, which is now back almost to the worst levels of the Great Recession. And small business job creation is underperforming, which doesn't bode well for future employment growth.

[Strategy Dashboard home]

193,000 persons left the civilian labor force in July, and we estimate that 80% of these were unemployed. So their absenting themselves from the jobs market -- a sign that they've simply given up -- perversely made the unemployment rate go down. It wasn't new employment that did that. According to the household survey (from which the unemployment rate is derived), net employment *fell* in July by 38,000. The civilian labor force is now 3.9 million below trend, and it is now only 56,000 above the worst lows of the Great Recession in December, 2009.

- For the second month in a row, employment according to the household survey underperformed employment according to the payroll survey (please see the chart below). In July, when adjusted for the statistical basis used by the payroll survey, the 38,000 drop in household survey jobs becomes a gain of 47,000. All to the good, but that is swamped by the 117,000 gain in the payroll survey. Because the household survey is relatively biased toward smaller businesses, this indicates that job creation was stronger in the big business sector. Historically, small business has reliably been the engine of net job creation. The fact that it is lagging now reflects the grass-roots loss of confidence that we think has been the signature of the weak recovery from the Great Recession.

Relative employment change, household survey minus payroll survey
Recessions Thousands; household adjusted for payroll concept basis



Source: BLS, TrendMacro calculations

Bottom line

This morning's jobs numbers were a pleasant surprise versus expectations, but were very weak in absolute terms. The unemployment rate fell only because of shrinkage in the labor force, which is now back almost to the worst levels of the Great Recession. And small business job creation is underperforming, which doesn't bode well for future employment growth.

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Menlo Park CA
650 429 2112
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
212 537 9067
lorcan@trendmacro.com

John Clinton
Charlotte NC
704 552-3629
jclinton@trendmacro.com

[About us]