

TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 2, 2011

Donald Luskin

It's another lost quarter -- but far from the feared 2008-style cliff-dive.

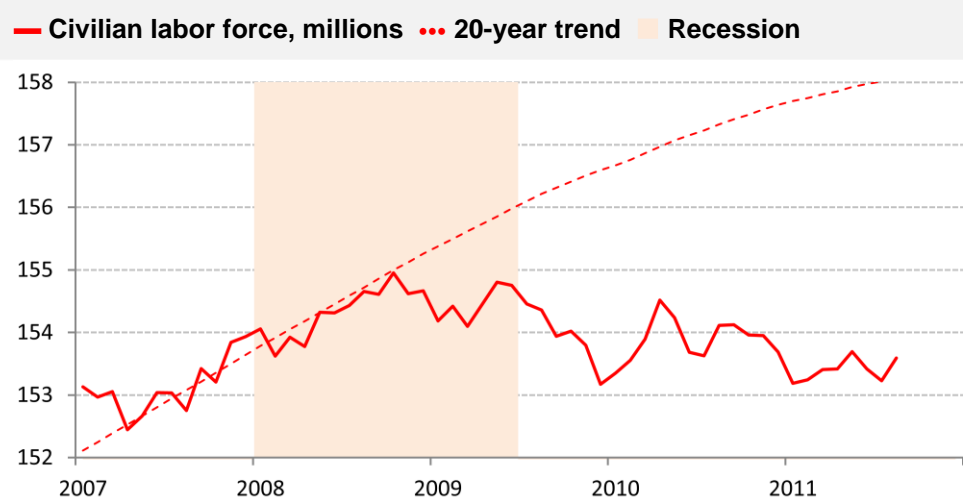
[This morning's August Employment Situation Report](#) missed already low expectations, and included large downward revisions to government jobs for the prior two months. But it beat the catastrophic unofficial expectations that have been in the market ever since the disastrous [Philly Fed survey](#) mid-month. These numbers are symptomatic of yet another lost quarter, but not evidence of a cliff-dive like we experienced in the summer of 2008, a period to which today is constantly being likened. Then, total non-farm payrolls had started printing negative in February. By August 2008, the month-on-month contraction in payrolls was up to 267,000.

- A silver lining: employment as measured by the household survey grew by 331,000 -- the largest jump since April, 2010.
- Unemployment as measured by the household survey grew too, but only by 36,000.
- Together, this means the labor force expanded by 367,000 -- the largest jump since August, 2010, reversing much of the drop over the last two months (please see the chart below).
- Enough of that growth was accommodated with employment to leave the unemployment rate unchanged at 9.1%.
- We also note, as has been reported widely, that the headline

Update to strategic view

US MACRO, US FED: A bad report, missing already low expectations. A silver lining: the workforce expanded for the first time in three months, and almost all new entrants were accommodated with jobs -- thus the unchanged unemployment rate. This will nudge the Fed toward easing, but it's not a tipping point for QE3. The biggest impact will be political -- the stagnant jobs market, and the administration's clumsy response to it, are steeply worsening Obama's re-election prospects.

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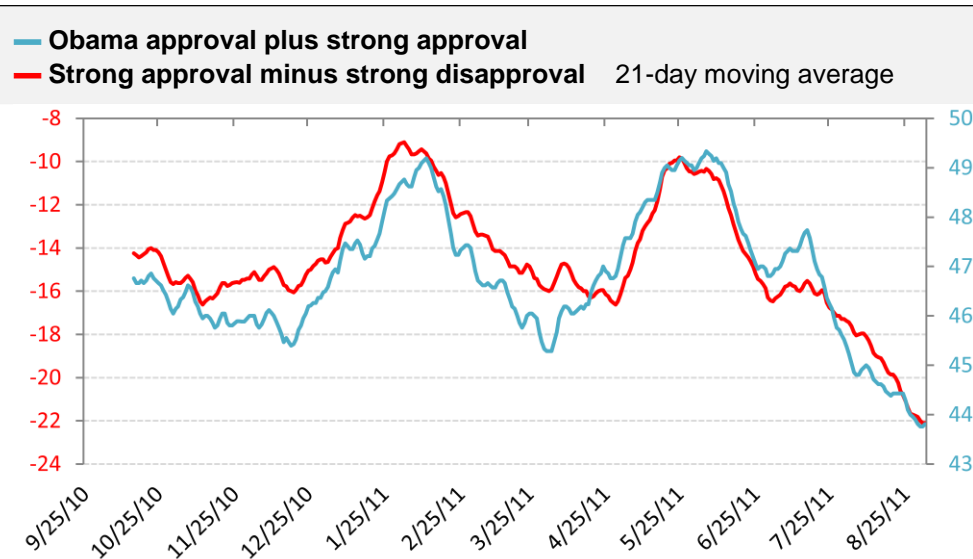
Source: BLS, TrendMacro calculations

payroll numbers were distorted downward by 45,000 due to the strike at Verizon. Without this factor, the zero non-farm payroll print would have been up 45,000. But this factor was well known in advance, so it has no impact on the extent to which this morning's numbers missed expectations.

All else equal, the August jobs report will nudge the Fed in the direction of easing. But we doubt it will be a tipping point for policy that would make QE3 inevitable. Bernanke was clear at Jackson Hole that the Fed feels it is limited in how much it can do at this point to help the labor market (see "[On Bernanke at Jackson Hole](#)" August 26, 2011). With the unemployment rate unchanged in the face of a growing workforce, we think the Fed won't feel the necessity to take desperate measures.

A deeper impact of this morning's report will be felt in the political arena. Now that the debt ceiling debate is behind us, the focus has turned to jobs, and this is a subject about which voters will hold the Obama administration primarily accountable in 2012. The president's ham-handed fumble this week in scheduling an address to Congress on jobs the same night as the Republican debates is more than just a matter of bad style -- it sends the message that the administration is unserious in the face of an ongoing crisis.

- President Obama's approval ratings have fallen steadily from their short-lived peak when Osama bin Laden was killed, worsening consistently throughout the debt ceiling debate (please see the chart below).



Source: Rasmussen, TrendMacro calculations

- As scattered and as uninspiring as the GOP field of hopefuls is right now, Obama is going to face a very serious re-election challenge.
- Win or lose, the House is now likely to stay in GOP hands, and the Senate is likely to flip to GOP majority control.

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- For all the very real risks and impediments facing the economy now, don't fail to take into account that this shift in the political balance -- something that was utterly unthinkable just a year and a half ago -- is in play. It has already arrested the destabilizing headlong plunge into anti-growth policy of 2009 and 2010 (see ["The Pendulum Swings Back"](#) November 2, 2010). Now there is the improving prospect that, after 2012, we could return to *pro*-growth policy.
- For that matter, the intense political pressure that led Obama to attempt the stunt of pre-empting the GOP debate might force him toward the political center, where he himself might propose *pro*-growth policy initiatives. We find that unlikely -- the debt ceiling debate seems to have hardened Obama's far-left economic views. But the pressure is there, and one way or the other, later or sooner, it will be felt in policy.

Bottom line

A bad report, missing already low expectations. A silver lining: the workforce expanded for the first time in three months, and almost all new entrants were accommodated with jobs -- thus the unchanged unemployment rate. This will nudge the Fed toward easing, but it's not a tipping point for QE3. The biggest impact will be political -- the stagnant jobs market, and the administration's clumsy response to it, are steeply worsening Obama's re-election prospects. ▶