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TRENDMACRO LIVE!

On the November Jobs Report

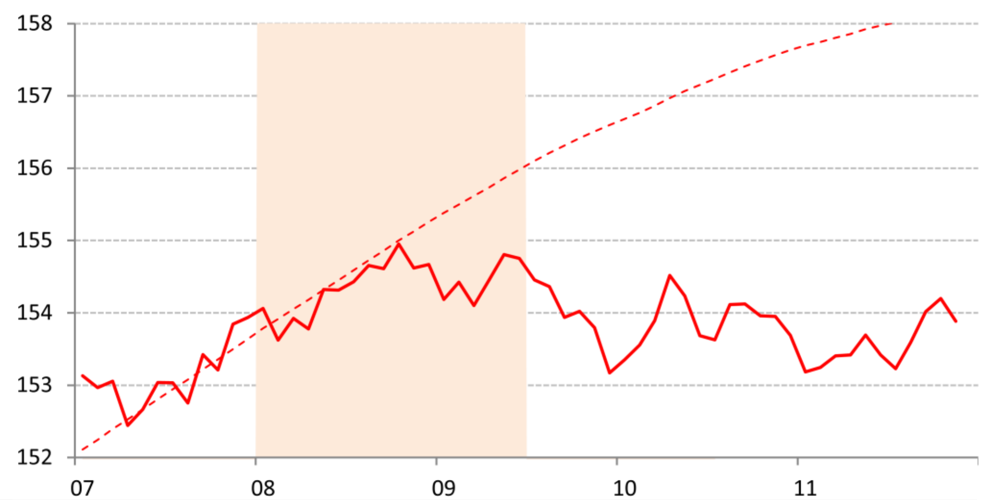
Friday, December 2, 2011

Donald Luskin

It's an illusion. If the economy were sharply improving, unemployment would go up.

The big improvement in the unemployment rate to 8.6% reported in [this morning's November Employment Situation Report] is *not* good news.

- Yes, it was partly the result of a gain of 278,000 jobs in the Household Survey.
- And it sounds good if you say if fast to note that unemployment fell by 594,000 in the same survey.
- But put these two numbers together and it's not so good. When unemployment falls by more than employment increases, it can only be because the labor force shrank. And indeed, the labor force did shrink by 315,000 (the difference between 594,000 and 278,000).
- That means that 315,000 unemployment people just gave up, stopped looking for work, and left the labor force -- dropping out of the statistics altogether.
- This puts the labor force at 153.8 million -- which is 1.1 million below the October 2008 all-time peak. And considering the growth in the working-age population over three years, it is 4.3 million below trend (please see the chart below).



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO: The drop in the unemployment rate is an illusion, caused by a large number of unemployed persons leaving the labor force and dropping out of the statistics. It is a sign of lingering weakness in the economy, not improvement. But overall, this morning's jobs report gives little reason to think the US economy is slipping into recession.

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- As we have been saying now for two years (see, among many, "PIIGS, Panic and Jobs" February 5, 2010), the unemployment rate should *rise* when the economy substantially improves, given the large number of persons who have left the labor force entirely. That's because economic improvement will draw people back into the labor force -- and when they come back as new entrants, they will generally start out unemployed.
- Today's apparent improvement in the unemployment rate is therefore a sign of lingering weakness, not improvement.

Weakness, yes, but not *new* weakness. We focus on this one issue in this morning's report only because it is an interesting anomaly. Overall, the report was much like last month's (see "On the October Jobs Report" November 4, 2011) -- showing modest improvement in most dimensions.

- November was the fourth month in a row to show large employment gains in the Household Survey. In fact, if the 278,000 jobs reported were adjusted for the same definitions used in the Establishment Survey, the gain would be 498,000.
- There were substantial upward revisions in payroll jobs for the prior two months.
- Aggregate payrolls and hours worked grew.
- The monthly job-finding probability increased, and the monthly separation probability decreased.
- The percentage of the labor force working part-time involuntarily fell.

The falling unemployment rate is, unfortunately, an illusion. But overall, this morning's jobs report provides little reason to think the US economy is slipping into recession.

Bottom line

The drop in the unemployment rate is an illusion, caused by a large number of unemployed persons leaving the labor force and dropping out of the statistics. It is a sign of lingering weakness in the economy, not improvement. But overall, this morning's jobs report gives little reason to think the US economy is slipping into recession.

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