

TRENDMACRO LIVE!

On the December Jobs Report

Friday, January 6, 2012

Donald Luskin

This supposedly big upside surprise in jobs was neither big nor surprising.

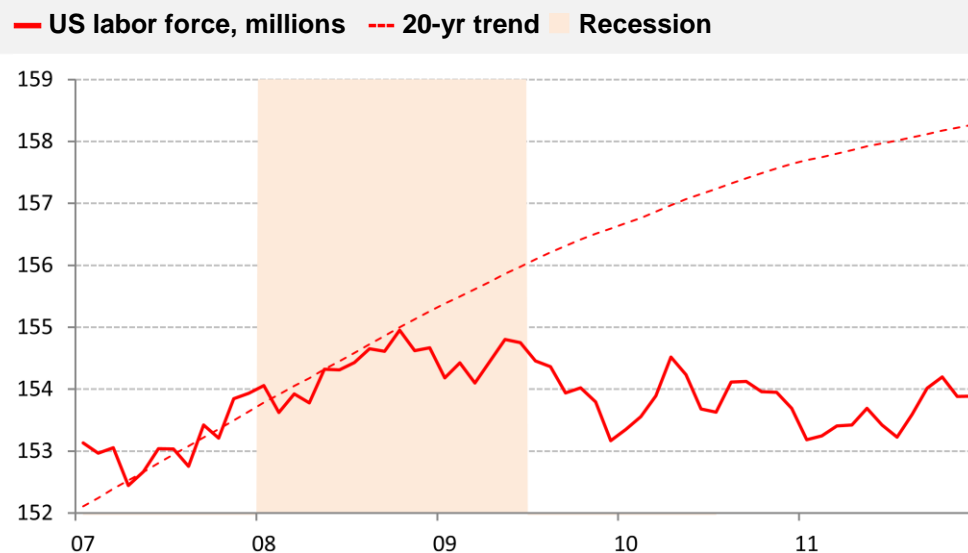
[This morning's December Employment Situation Report](#) was nominally an upside surprise versus published expectations. But in light of [yesterday's ADP payroll survey](#), showing the largest single upside change in the history of the data, today's official jobs statistics were nothing special.

- As last month (see ["On the November Jobs Report"](#) December 2, 2011), the drop in the unemployment rate was a bit of an illusion -- or at best a bittersweet reality.
- Employment was up (+176,000 by the Household Survey) and unemployment was down (-226,000). But when unemployment falls by more than employment increases, it can only be because the labor force shrank -- as indeed it did by 50,000 (the difference between 226,000 and 176,000).
- The economy is growing enough to begin to re-employ the unemployed members of the labor force -- though that quite slowly. It's still not growing enough to keep the labor force from shrinking -- and certainly nowhere near enough to accommodate growth in the working age population (please see the chart below).
- As we have been saying now for two years (see, among many,

Update to strategic view

US MACRO: Another decent jobs report -- but hardly the big upside surprise that some immediate headlines suggested. As last month, the drop in the unemployment rate is an illusion caused by unemployed persons leaving the labor force and dropping out of the statistics. Overall, this morning's jobs report shows only modest growth, but it gives little reason to think the US economy is slipping into recession.

[\[Strategy Dashboard home\]](#)



Source: BLS, TrendMacro calculations

["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.

- What's worse, the gain of 176,000 jobs according to the Household Survey is the weakest since June.

All that said -- this morning's jobs report shows improvement -- albeit small improvement -- across almost every labor market indicator (see ["Data Insights: Jobs"](#) January 6, 2012).

- Aggregate earnings and hours worked grew.
- The monthly job-finding probability increased. So did the monthly separation probability, but we welcome gains here from its persistent pathologically low level that indicates stagnation in the labor market.
- Average duration of unemployment, and the proportion of long-term unemployed, fell.
- The percentage of the labor force working part-time involuntarily fell.

Bottom line

Another decent jobs report -- but hardly the big upside surprise that some immediate headlines suggested. As last month, the drop in the unemployment rate is an illusion caused by unemployed persons leaving the labor force and dropping out of the statistics. Overall, this morning's jobs report shows only modest growth, but it gives little reason to think the US economy is slipping into recession. ▶

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

[\[About us\]](#)