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 January Jobs Report

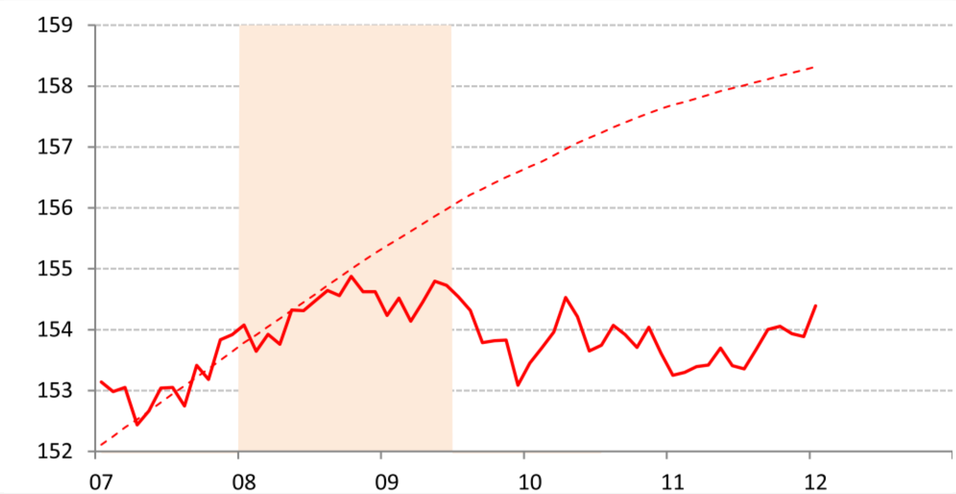
Friday, February 3, 2012

Donald Luskin

A big surprise -- merely average jobs growth! But where are the FOMC's "significant risks"?

This morning's January Employment Situation Report was a large upside surprise in every dimension, including large upside revisions. It was especially welcome to see an expansion in the labor force by 508,000 (please see the chart below) -- with all these new entrants coming in employed. Indeed, with employment measured by the Household Survey up 847,000, it was also possible for 339,000 unemployed persons already in the workforce to find employment as well. Thus unlike the last two months, this month's decline in the unemployment rate is legitimate (see "On the December Jobs Report" January 6, 2012 and "On the November Jobs Report" December 2, 2011). Household Survey numbers in January must always be taken with a grain of salt, because of the annual adoption of new statistical population controls. But this month's big numbers can't be denied.

- That said, neither can it be denied that these strong numbers are only strong in relation to expectations. In absolute terms they are about average. They fit right in with the Q4 2011 gross domestic product reported last week, which at 2.8% annual growth was about average, too. The problem is that after the Great Recession,



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, GOLD, US FED: A big upside surprise in jobs, and a most welcome rise in the labor force. Thanks to that, this month the drop in the unemployment rate is real, not an illusion. That said, this surprisingly strong jump in jobs is merely average in the grand scheme of things, and in the wake of the Great Recession it ought to be far above-average. Gold fell after the jobs report -- but the Fed has precommitted to a dovish posture for at least two years. Lower chances of a systemic event, thanks to the ECB's LTRO, and more better than expected macro numbers like this morning's, will make the Fed's fixed position increasingly excessive, eventually triggering an inflationary error. We reiterate our positive view on gold.

[Strategy Dashboard home]

the economy -- and jobs -- should be growing at above-average rates. At merely average growth rates, we aren't closing the output gap.

- Perhaps the prospect of continued merely average growth -- when more ought to be possible -- was enough for the FOMC to commit in the January meeting to a zero interest rate policy through 2014 (see "On the January FOMC" January 25, 2012).
- But this morning it seems all the more inexplicable that the FOMC would have repeated for the fourth time that there are "significant downside risks" to the economy. All the more so in light of a far better than expected non-manufacturing ISM report.
- If the Fed was thinking of the tail-risk of a Lehman-type global credit hard-stop coming out of European bank failures, then they are making a large error. The European Central Bank's 3-year fixed-rate full-allotment Longer Term Refinancing Operation has essentially ruled that out (see "Europe's Wall of Liquidity" December 21, 2011). Global stock markets are beginning to see that, and express it in a slow-motion melt-up going on despite the worst earnings season in three years.
- Gold -- the supreme indicator of liquidity conditions -- fell a bit after this morning's jobs numbers, seemingly a knee-jerk reaction to the idea that an upside jobs surprise would cause the Fed to dial back its dovishness. But gold traders shouldn't forget that the Fed has pre-committed to its current position for almost two years.
- We've been satisfied that the Fed's dovish posture was the right course for a liquidity-hungry world, and the proof is in how little inflation there has actually been. But now we could be at the dawn of the inflationary Fed policy error we've been predicting for quite a while that the Fed would ultimately make. It may now fail to recognize that the level of systemic risk in the world has substantially fallen, and fail to adjust itself to what will turn out to be insufficient demand for the massive liquidity it is supplying (see "Gold is a Hold" December 20, 2010).

Bottom line

A big upside surprise in jobs, and a most welcome rise in the labor force. Thanks to that, this month the drop in the unemployment rate is real, not an illusion. That said, this surprisingly strong jump in jobs is merely average in the grand scheme of things, and in the wake of the Great Recession it ought to be far above-average. Gold fell after the jobs report -- but the Fed has precommitted to a dovish posture for at least two years. Lower chances of a systemic event, thanks to the ECB's LTRO, and more better than expected macro numbers like this morning's, will make the Fed's fixed position increasingly excessive, eventually triggering an inflationary error. We reiterate our positive view on gold.

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]

Recommended Reading

The coming resolution of the European crisis
Fred Bergsten, Jacob Funk Kirkegaard
VoxEU
January 26, 2012

Tax Rates on Capital Gains
Roberton Williams
Tax Notes
January 25, 2012

[Reading home]