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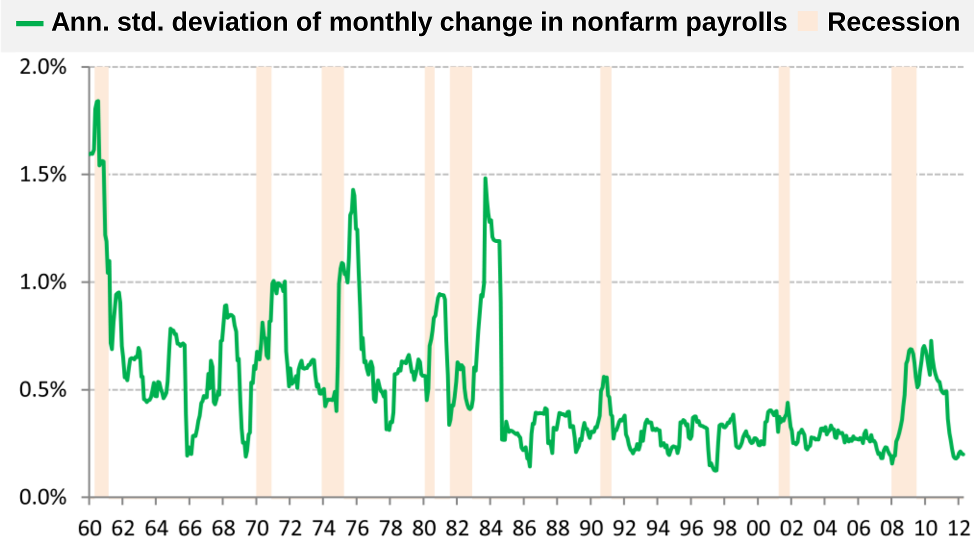
TRENDMACRO LIVE!

On the June Jobs Report

Friday, July 6, 2012
Donald Luskin

In a hostile monetary/fiscal/regulatory policy environment, this is the jobs growth we deserve.

This morning's June Employment Situation report shows, once again, an economy that has found a steady state at a very low level of growth -- it's a true L-shaped recovery (see "On the May Jobs Report" June 1, 2012). The evidence: the volatility of changes in payroll jobs has settled down to a low level consistent with a mature recovery (please see the chart below). All of which begs the question: *in this business cycle, is this all we get?*



Source: BLS, TrendMacro calculations

The monetary/fiscal/regulatory policy mix is a barrier to stronger recovery.

- While central banks around the world have eased over the last several weeks in what appears to be at least loosely coordinated action, their policy moves in all cases have been the least that they could make while still moving at all (see "On Central Bank Coordinated Action" July 5, 2012, and "On the June FOMC" June 20). Such minimalist actions are not helpful at this point on the curve of diminishing returns from policy.
- The message from central bank authorities is that monetary policy has done all it can reasonably do, without grand gestures of a scale

Update to strategic view

US MACRO: Job creation has lapsed into a steady state of near-zero growth -- a true L-shaped recovery. Central banks around the world are doing as little as they can get away with, passing the duty to restart growth to fiscal and regulatory authorities. But those authorities are doing nothing to reduce massive uncertainties that are holding back the capital investment required to create jobs.

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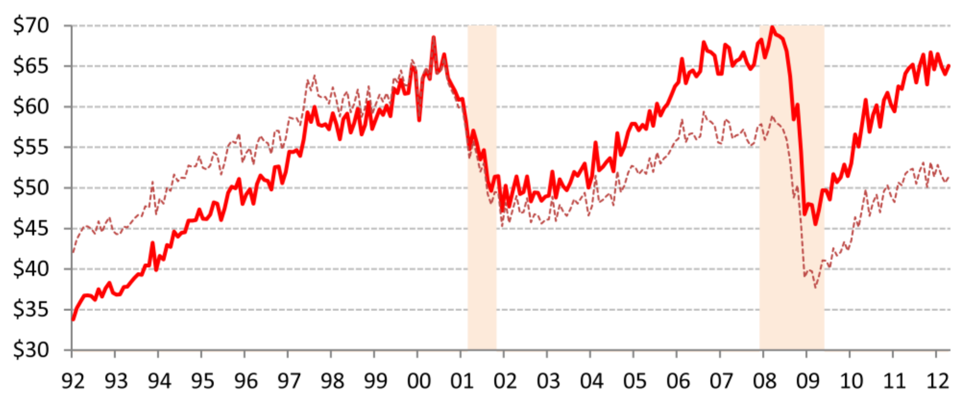
that they are unwilling to make. Very consciously, the ball is being thrown into the court of fiscal and regulatory policy.

- This may be why gold is trading sharply lower following this morning's jobs report. We would expect it to rise in anticipation of a monetary policy response at the August FOMC meeting (indeed, we still think there will be one; again, see "On the June FOMC") -- the drop indicates no expected response.
- Other than the scrappy battle for reform taking place in troubled European peripheral nations such as Italy and Spain (see "Europe's Supply-Side Revolution" February 17, 2012), there is no constructive action being taken by fiscal and monetary authorities.
- In the US, the Supreme Court's Obamacare decision is extraordinarily unhelpful to firms that must allocate their capital, who had been looking for a signal that the expansion of the regulatory state would be checked (see "On the SCOTUS Obamacare Decision" June 28, 2012).
- And the administration and its proxies are doing little to assure markets that the year-end "fiscal cliff" will be resolved without a destabilizing showdown that could result, by no one's overt intention, in by far the largest tax hike in American history.
- It is helpful that President Obama was forced to admit that the economy is "not fine" -- this deprives the brinksmanship of some important fuel (see "Light at the End of the Cliff?" June 11, 2012). Yet since that admission, administration proxies are floating a new narrative -- that the fiscal cliff doesn't really matter. The highly influential union-funded Center for Budget Policy and Priorities has issued a "study" declaring that the fiscal cliff is really no risk at all -- they claim it's more of a fiscal "slope" that "would likely be relatively modest," so the lame duck session of Congress should have no fear that massive year-end tax hikes would trigger a recession.
- With such fears in the forefront of economic decision making, it is no wonder that fixed investment as a share of US GDP is still stuck at about the all-time low hit during the Great Recession, and that new orders for non-defense capital goods (ex-aircraft) are rolling over without having reached the highs of the last expansion, even

New orders, non-defense cap goods ex-aircraft
USD bil — Nominal ··· Real Recession



Source: Census Bureau, BLS, NBER, TrendMacro calculations

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in nominal terms (please see the chart below).
- It's this simple: job creation requires a growing economy. Growth requires productivity gains. Productivity gains require capital investment. Capital investment requires confidence in the monetary/fiscal/regulatory policy environment in which capital will be valued, taxed, and regulated over many years.
- No confidence, no jobs. QED.

Bottom line

Job creation has lapsed into a steady state of near-zero growth -- a true L-shaped recovery. Central banks around the world are doing as little as they can get away with, passing the duty to restart growth to fiscal and regulatory authorities. But those authorities are doing nothing to reduce massive uncertainties that are holding back the capital investment required to create jobs.