

TRENDMACRO LIVE!

## On the August Jobs Report

Friday, September 7, 2012

**Donald Luskin**

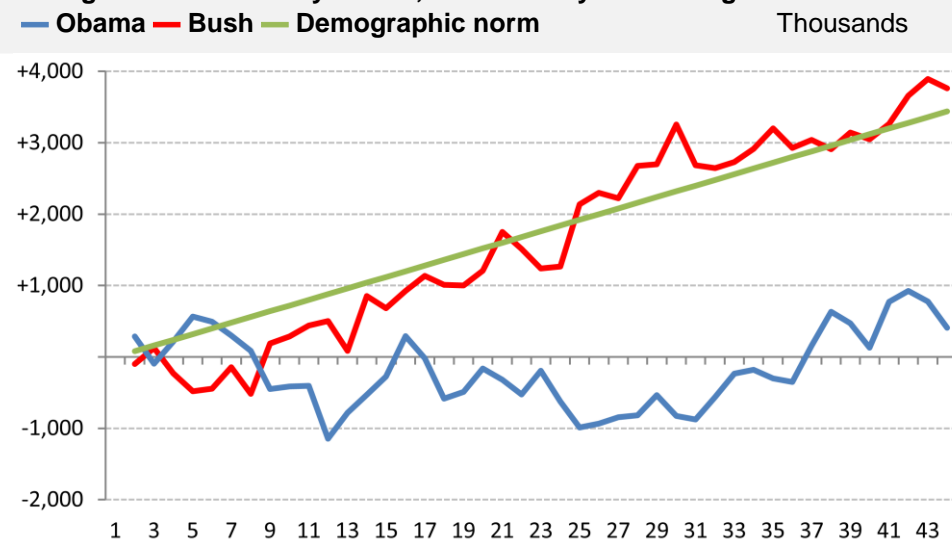
**This won't call the election -- ambiguous conditions on the ground will.**

No wonder President Obama said so little about the current state of the jobs market in his [acceptance speech last night](#), having surely [known in advance](#) about this morning's disappointing [August Employment Situation report](#).

- Even the apparent bright spot of the report -- the drop in the unemployment rate from 8.3% to 8.1% -- was bad news. It was the distorted result of a loss of 119,000 jobs in the Household Survey, which were more than offset by 368,000 persons leaving the labor force and thus dropping out of the statistics -- two thirds of them from among the ranks of the unemployed (please see this morning's [Data Insights: Jobs](#)).

In terms of macroeconomic analysis, move along -- there's nothing to see here. It's just another disappointing but not catastrophic jobs report in our Not So Great Expansion (see, among many, ["On the June Jobs Report"](#) July 6, 2012).

### Change in labor force by month, cumulatively from inauguration



Source: BLS, TrendMacro calculations

### Update to strategic view

#### US MACRO, US FED:

Just another rotten jobs report in our Not So Great Expansion. It's unlikely to change the Fed's mind one way or the other. This morning's statistics themselves won't change the election, either. Realities on the ground do that. Given the analytic urgency of forecasting the election outcome, the realities are unclear. By many measures Obama's jobs record beats that of George W. Bush at this point in his first term, and Bush was easily re-elected. That said, Obama faces a much higher unemployment rate, and a sharp deterioration in labor force participation. This creates an army of about 3 million "forgotten men" -- we simply don't know yet whether or how they will vote, or whether they could make the difference.

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- The significance of this morning's data is primarily what it means for the election, and secondarily what it means for the Fed. In both dimensions, this morning's report probably wasn't especially pivotal (though with respect to the Fed, the jump in the gold price certainly indicates that the data will push the Fed toward the dovish).
- As a data release *per se*, it means nothing to the election -- it is neither good enough nor bad enough to give any new ammunition to either candidate. To the extent that the election is determined by economics -- and that is doubtless a large extent -- it will be the reality of conditions on the ground, not statistics, that count.
- The reality is not good. Last night the single jobs statistic Obama could cite to his credit was that "After a decade of decline, this country created over half a million manufacturing jobs in the last two and a half years." True, but that was a carefully chosen starting point. Despite that gain, cumulatively since Obama's inauguration, 582,000 manufacturing jobs have been *lost* (by the way, the *soi disant* "fact checkers" [don't tell you this](#)).
- But that is by no means to say that Obama can't be re-elected given the present state of the labor market. If the critical factor is *cumulative change* in labor market conditions, then by most measures Obama looks better than George W. Bush did at the same point in his first term -- yet Bush was re-elected handily.
- But this may not be how the electorate sees it. Instead, the electorate may focus on whether conditions today are satisfactory or not -- or at least improving, or not. By this method Obama compares very unfavorably to Bush. The killer statistics are unemployment: it's high rate (8.1% now, 5.4% under Bush, improving slightly in both cases) and its average duration (39.2 weeks now, 18.8 weeks under Bush, also improving slightly in both cases).
- But then the hidden killer may be the army of unemployed persons who have dropped out of the labor force entirely, unable to find a job (about 200,000 of whom made today's drop in the unemployment rate possible).
- By this point in Bush's first term, the labor force had grown by 3.76 million, more than enough to accommodate the 3.44 million persons becoming qualified for entry by virtue of demographics (please see the chart on the first page).
- But under Obama's presidency the labor force has grown by 409,000. The demographic forces in play are the same, which leaves about 3 million ["forgotten men."](#) If they remember to vote, it could make the difference.
- The Romney/Ryan campaign is seizing on this element already, with Paul Ryan saying on CNBC just now that "for everyone who got a job in August, four people stopped looking for a job."

To be clear, we emphasize the political implications of this not for the sake of politics, but because we believe that anticipating the outcome of the election is now the single most important analytical task facing us. Even abstracting from the long term implications for growth, this election will likely determine whether or not the US economy falls off the year-end fiscal

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cliff (see ["On Ryan at the RNC"](#) August 30, 2012). Unfortunately this morning's jobs report is not definitive.

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### **Bottom line**

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