

TRENDMACRO LIVE!

On the September Jobs Report

Friday, October 5, 2012

Donald Luskin

Obama loses the debate, but unemployment breaks his way. And the doomsday clock ticks.

First the Supreme Court's Obamacare decision (see ["On the SCOTUS Obamacare Decision"](#) June 28, 2012). Then QE3 (see ["On the September FOMC"](#) September 13, 2012). Now this: the unemployment rate suddenly dropping to 7.8% (when an increase to 8.2% was expected), exactly enough to return it to just where it was before Barack Obama took office. One inclined to conspiracy theories might conclude that the fix is in. This even trumps [former GE CEO Jack Welch's tweet last night](#): "at 7.9 it would be Chicago and labor Sec in action."

We don't really think a conspiracy is behind this. But judging from the context of all the other employment and macroeconomic data available to us, we have to think that the drop in the unemployment rate in this morning's [September Employment Situation report](#) is too good to be true. While payrolls grew by only 114,000, are we to believe the "household" survey that at the same time there was a gain of 873,000 jobs, a drop in the number of unemployed persons by 456,000, and an increase in the

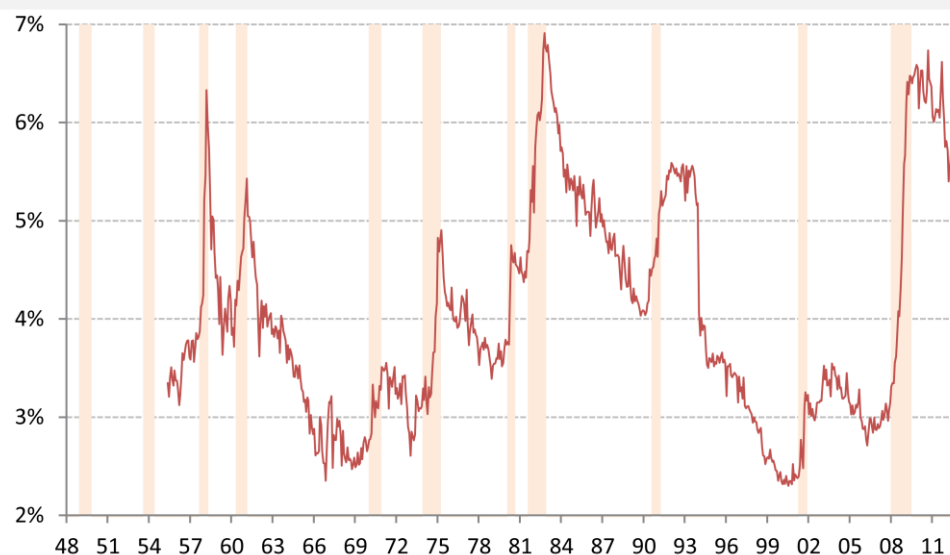
Update to strategic view

US MACRO, ELECTION MODEL:

This morning's drop in the unemployment rate is too good to be true. But it's a plus for Obama. Payroll jobs were more of the same -- inadequate job growth in this Not So Great Expansion. But especially in light of the drop in the unemployment rate, they weren't so bad as to decisively shift the probabilities in the election. TrendMacro's election model uses payroll jobs, not the unemployment rate -- but it still predicts an Obama victory by 154 Electoral College votes. Neither do we see Wednesday's presidential debate as decisive for the election -- it was a game-changer only in the sense that it keeps Romney in the game at all. Yet with the game still afoot, we are as much at sea as ever on the exact political configuration that will obtain when the fiscal cliff negotiations start after the election. We continue to urge clients to be prepared to respond to a very large volatility event by year-end.

Involuntary part-time workers as percentage of the employed labor force available for full-time work

Recession



Source: BLS, TrendMacro calculations

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size of the labor force by 418,000 (every one of whom apparently found a job immediately, and across all categories -- private, government and self-employed)?

- While 873,000 new jobs were reported, there was an increase of 582,000 in people working "part-time for economic reasons" -- that is, the worker would have preferred full-time. So the fraction of the labor force working part-time involuntarily rose sharply this month (please see the chart on the previous page). Working part-time is better than not working at all, but this is hardly a symptom of a healthy labor market.
- Also, it is not unusual at all for there to be large discrepancies between the "household" survey from which the unemployment statistics are drawn, and the "establishment" survey that showed this morning a continued steady state at a very low level of payroll growth (see "[On the June Jobs Report](#)" July 6, 2012).
- The two surveys follow different methodologies, draw on different populations, and use different definitions of employment and unemployment -- notably, including the treatment of part-time workers. If today's wildly exuberant gain in employment of 873,000 according to the household survey were [adjusted to the same definitions as the establishment survey](#), the gain would be a far less anomalous 279,000.
- Incidentally, it will be challenging for the Fed to choose between the two surveys, as it uses its discretion in the coming months to modulate the asset purchases in QE3 (see "[Rethinking QE3](#)" September 18, 2012). Traditionally the Fed has treated the payroll survey as dispositive, preferring its more rigorous data collection method. So we would be surprised if this morning's news deflects the Fed's pre-existing intentions very much.

This morning's is the first of two remaining jobs reports before the election. It comes on the heels of the first presidential debate, with voters' minds having been focused on economic issues -- and still far enough ahead of election day for there still to be a large number of undecided voters to be influenced by it.

- But quantitatively, this morning's data should have little impact on the election. It barely alters the prediction of our election model, for which year-on-year payroll growth is a key economic input (see "[TrendMacro's Election Model](#)" September 28, 2012). The model does not use the unemployment rate as an input, because it does not have as much predictive value of payrolls.
- Payroll growth now is 1.4%, unchanged from last month. So the model's prediction for Obama's winning Electoral College vote margin doesn't change -- it's still 154, maintaining our confidence that Obama will win at 86%.

But qualitatively, this morning's drop in the unemployment rate does hand Obama the opportunity to claim that things are improving. Who can say how effective such a claim would be? We cannot be certain what

**Contact
TrendMacro**

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Chicago IL
312 273 6766
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

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combination of statistics, claims about the statistics, and reality on the ground really determine voting behavior. We suspect that reality is the dominant factor. But what is the reality here -- tepid payroll growth or torrid "household" growth? We suspect it is the former, and that's what our model looks at.

- Either way, none of this makes any difference to our prediction for the election's outcome. Subjectively, it's a plus for Obama.

All that said, a 7.8% unemployment rate isn't *good*, especially in light of the drop in the participation rate -- it's just better than the 8.2% that was expected this morning. So nice downtick or no nice downtick, the totality of the jobs picture doesn't really reflect a reality this morning that is much different than it was last month. Nevertheless, *it offers potentially important confirmation of old information*. Specifically, it confirms that the economy, in the aftermath of the Great Recession, is mired in a Not So Great Expansion. We believe this is in large part due to the policy mix we've experienced -- fiscal, monetary and regulatory (see ["On the August Jobs Report"](#) September 7, 2012).

- Aside from any overall political preferences we may have across the many domains in which candidates can be judged, in *this* domain we find it virtually insupportable to argue that the current course has been effective for job creation.
- We think one of the reasons why Romney is [universally](#) regarded as having won Wednesday's debate is that Obama could not successfully argue for the policy mix that has prevailed under his administration.
- Obama *did* try to create the impression that this policy mix has worked, [saying](#) "Over the last 30 months, we've seen 5 million jobs in the private sector created."
- This claim depends on starting the tally from the very bottom, and ignoring non-private payrolls. Over Obama's entire term so far, even including the recent [preliminary benchmark revisions](#), net payroll gains have been approximately nil.
- Obama went on to [say](#) that "we should go back to the [tax] rates that we had when Bill Clinton was president, when we created 23 million new jobs." This too is an exaggeration, as only 21.1 million were created. Regardless, this would seem to be an argument that while job creation is claimed to have been strong in Obama's first term, it would have been even stronger if only tax rates could have been higher.
- Yet he can't really believe that. He signed the two-year extension of the Bush era tax rates in 2010 after his own party argued that rising taxes would hurt the fragile economy (see ["Good Week for Growth"](#) July 26, 2010). His 2009 stimulus bill reduced Social Security taxes, and he has since extended that reduction. And in the debate, Obama [said](#) "my tax plan has already lowered taxes for 98 percent of families, I also lowered taxes for small businesses 18 times."
- Then again, he has [repeatedly vowed](#) he will veto any extension of the Bush era tax rates that includes the so-called "rich folks."

- This muddle of conceptions around job creation and taxes is emblematic of the worst element of the present policy mix -- the crippling uncertainty of what economic policy will be in the future, determined as it seems to be by an unpredictable *ad hoc* grab-bag of ideology and pragmatism.

We would like to believe that the debate that so clearly revealed this problem to voters was a game-changer in the presidential campaign. That's because, again putting our political preferences aside, this election is profoundly important for markets. We have strong conviction that an Obama victory will lead to a major volatility event as the year-end fiscal cliff and the debt-ceiling approach (see, most recently, ["Step by Step, Toward the Cliff"](#) September 25, 2012).

- The debate was certainly a game-changer in the sense that winning it at least keeps Romney in the game. Before, there was no game at all -- he was a death-spiral.
- Yet as the logic of our quantitative model reveals, the economy isn't quite bad enough to decisively overcome the advantage of Obama's incumbency (again, see ["TrendMacro's Election Model"](#)). So Obama's inability to defend or even be clear about his economic policy mix isn't necessarily decisive.
- Perhaps it could be decisive if Romney were able to offer his own clear policy mix to voters, but in our view he has not done so. There's still the stumbling over whether his sensible tax simplification proposal is or isn't a tax cut, still the pandering China-bashing. If what the economy needs most of all is policy certainty, why isn't Romney offering more of it?
- In that sense, Obama *lost* the debate more than Romney *won* it.

So we wait. An indecisive debate. An indecisive jobs report. Meanwhile, that sound you hear is the doomsday clock ticking. We continue to urge clients to be prepared to respond to a very large volatility event by year-end (see ["Positioning for the Fiscal Cliff"](#) October 3, 2012).

Bottom line

This morning's drop in the unemployment rate is insanely too good to be true. But it's a plus for Obama. Payroll jobs were more of the same -- inadequate job growth in this Not So Great Expansion. But especially in light of the drop in the unemployment rate, they weren't so bad as to decisively shift the probabilities in the election. TrendMacro's election model uses payroll jobs, not the unemployment rate -- but it still predicts an Obama victory by 154 Electoral College votes. Neither do we see Wednesday's presidential debate as decisive for the election -- it was a game-changer only in the sense that it keeps Romney in the game at all. Yet with the game still afoot, we are as much at sea as ever on the exact political configuration that will obtain when the fiscal cliff negotiations start after the election. We continue to urge clients to be prepared to respond to a very large volatility event by year-end. ▶