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TRENDMACRO LIVE!

On the January Jobs Report

Friday, February 1, 2013

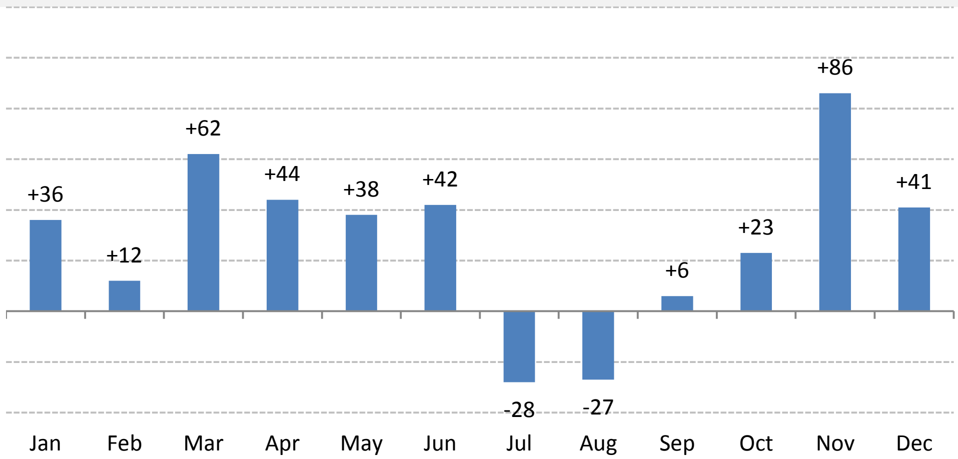
Donald Luskin

Dramatic (but predictable) upward payroll revisions, and no effect on the Fed's Evans Rule.

This morning's Employment Situation report was about in line with expectations, and was unremarkable except for the annual revisions to Establishment Survey data.

- Revisions increased by 312,000 the number of payroll jobs coming into 2012 -- and the rate of gain month-by-month by an average of 28,000 (please see the chart below). So for year-end, the revisions added 647,000 jobs.

Revised monthly change in payroll jobs due to benchmark revision
Thousands, SA



Source: BLS, TrendMacro calculations

- The upward revisions are consistent with the general outperformance of the Establishment Survey by the Household Survey. The revisions move the two into line in the direction of the Household Survey, as is typically the case.

The uptick in the unemployment rate to 7.9% from 7.8% was, as typical in this Not So Great Expansion following the Great Recession, accompanied by an expansion in the size of the labor force. The labor force grew by 143,000 of whom 126,000 came in unemployed (please see "Data Insights: Jobs" February 1, 2013).

Update to strategic view

US MACRO, US FED: Annual benchmark revisions make job growth in 2012 look better, but this only brings Establishment data into line with Household data. The unemployment rate upticked because the labor force expanded, with almost all new entrants coming in unemployed. The uptick doesn't change the trend-estimated date for Fed hiking under the Evans Rule -- it remains at September 2014.

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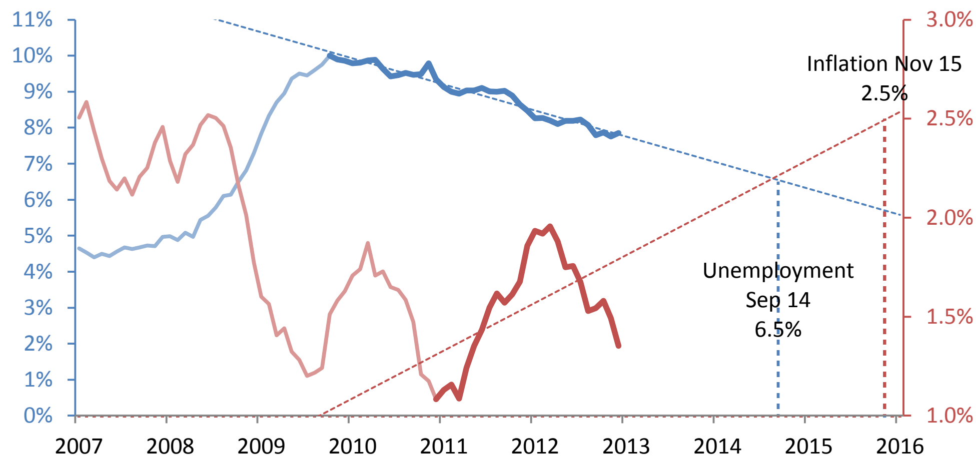
- The uptick in the unemployment rate makes no difference to the Fed's tightening plans. The 6.5% target for unemployment set under the so-called Evans Rule is still trend-estimated to arrive in September 2014 (please see the chart below, and "On the January FOMC" January 30, 2013).
- But yesterday's new data on personal consumption expenditures does change the date for tightening under the Evans Rule's inflation target of 2.5%. With the core PCE price index growth year-on-year falling from 1.5% to 1.4%, the trend-estimated tightening date moves from February 2015 to November 2015 (again, please see the chart below).

Trend-estimated triggers of the Fed's "Evans Rule"

Unemployment rate ··· Trend from peak

Core PCE inflation YOY ··· Trend from trough



Source: BLS, BEA TrendMacro calculations

- Because tightening under the Evans Rule would occur at the earliest of the two triggers, the unemployment rate still governs -- we should expect the Fed to tighten in September 2014.

Bottom line

Annual benchmark revisions make job growth in 2012 look better, but this only brings Establishment data into line with Household data. The unemployment rate upticked because the labor force expanded, with almost all new entrants coming in unemployed. The uptick doesn't change the trend-estimated date for Fed hiking under the Evans Rule -- it remains at September 2014.

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Recommended Reading

How China Became Capitalist
Ronald Coase and Ning Wang
Cato Policy Report
January/February 2013

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