

TRENDMACRO LIVE!

## On the February Jobs Report

Friday, March 8, 2013

**Donald Luskin**

**A headline surprise hides slowing improvement in unemployment, and stays the Fed's hand.**

A seeming upside surprise in [this morning's Employment Situation report](#) didn't get much of a reaction in markets. We can nitpick the numbers to rationalize why, but we're more inclined to think that, with the equity risk premium having almost entirely mean-reverted, there's something of a sell on the news mentality taking hold -- or at least not much enthusiasm to buy on the news (see ["The Incredible Shrinking Equity Risk Premium"](#) February 21, 2013 and ["The Crisis Score is Four for Four"](#) March 4).

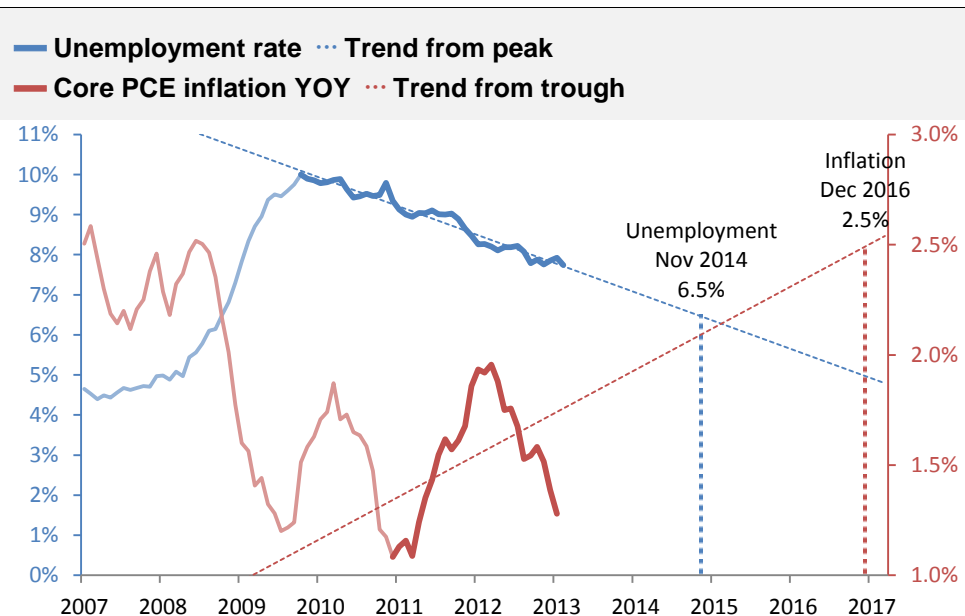
- The downtick in the headline unemployment rate to 7.7% from 7.9% is a mix of good news and bad news.
- The bad news is that it wasn't enough of a downtick to fully maintain the downward trend in unemployment from its peak in October 2009. But the good news is that the new flatter trend doesn't project a 6.5% unemployment rate until November 2014. This defers into the future by two months the expected date of the first Fed rate hikes under the so-called [Evans Rule](#) (please see the chart below, and ["2013 Outlook: Doves Ruled Out at the Fed"](#) January 25, 2013).

### Update to strategic view

#### US MACRO, US STOCKS, US FED:

Today's headline payroll gain was a big upside surprise for the consensus of economists, but was apparently well anticipated by the melt-up already experienced in equity markets this year-to-date. Behind the headlines, the unemployment rate fell -- but fell at a slowing rate, and only because the labor force contracted. This moves out by two months to date when the Fed's Evans Rule will be triggered. We see this jobs report as no indication at all that the Not So Great Expansion is gaining any sustainable new momentum.

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Source: BLS, BEA, TM calculations

- More bad news about the unemployment rate is the usual complaint -- that it was achieved by a contraction in the labor force, and by a decline in the labor force participation rate.
- Unemployment as presented in the Household Data fell by 300,000, but employment increased by only 170,000. Thus the labor force contracted by 130,000, and now stands 4.32 million below trend,
- The labor force participation rate fell back to match the all-time low at 63.5%. The unemployment rate, when normalized for the peak of the participation rate in 2000, stands now at 11.2% (please see the chart below).

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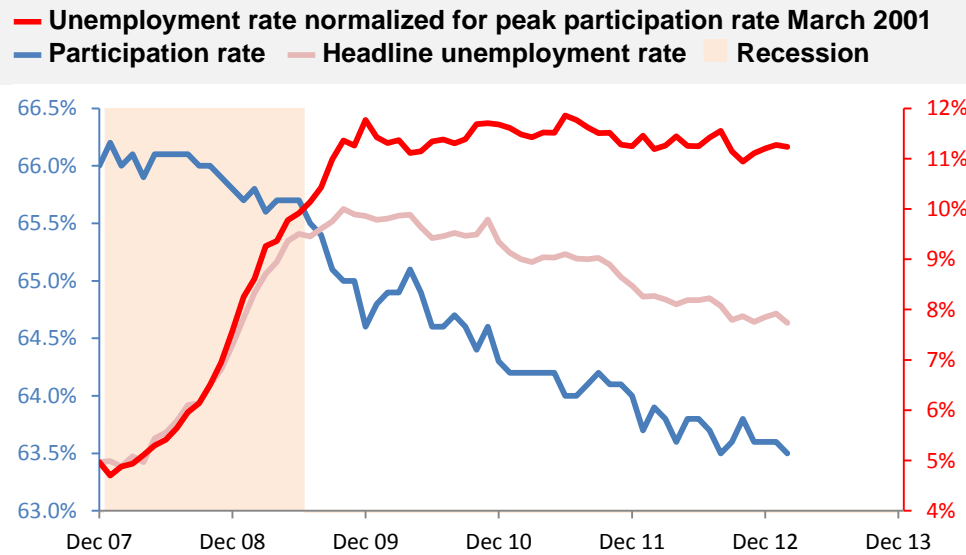
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Source: BLS, NBER, TrendMacro calculations

- In the same vein, average weeks of unemployment rose by 1.6 weeks to 36.9. The percentage of long-term unemployed rose 2.1% to 40.2%.

**Bottom line**

Today's headline payroll gain was a big upside surprise for the consensus of economists, but was apparently well anticipated by the melt-up already experienced in equity markets this year-to-date. Behind the headlines, the unemployment rate fell -- but fell at a slowing rate, and only because the labor force contracted. This moves out by two months to date when the Fed's Evans Rule will be triggered. We see this jobs report as no indication at all that the Not So Great Expansion is gaining any sustainable new momentum. ▶