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TRENDMACRO LIVE!

On the May Jobs Report

Friday, June 5, 2015

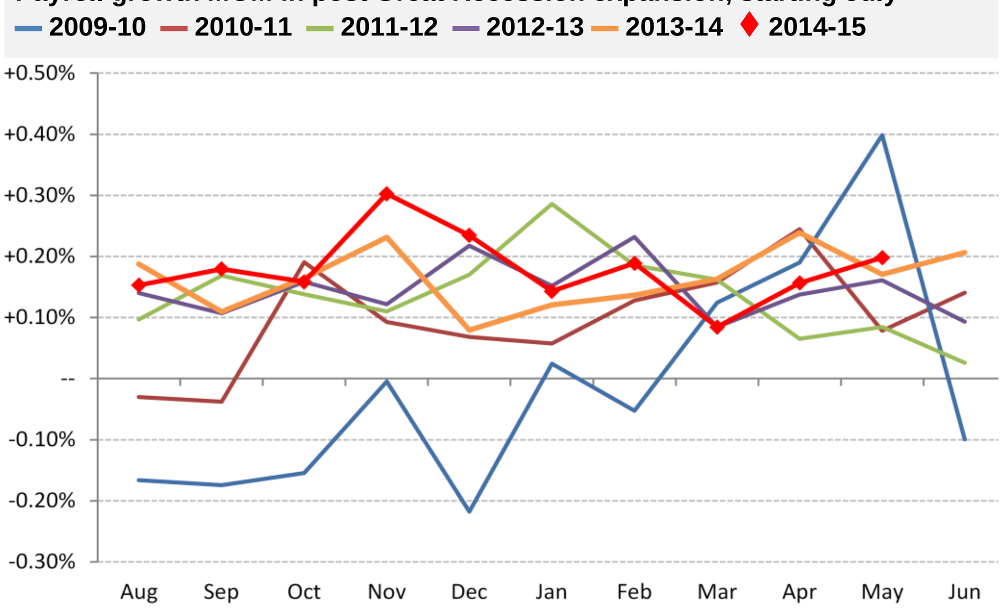
Donald Luskin

A big beat, but not far below the surface many reasons for the FOMC to do nothing in June.

This morning's Employment Situation report was a big beat, with 280,000 net payrolls topping consensus expectations for 226,000. *While the immediate reaction in markets has been a break to new highs for the year in the 10-year Treasury yield, we doubt that this report will be sufficient to motivate "liftoff" at the June 17 FOMC meeting.*

- To be sure, the headline payroll number was very strong -- in percentage-gain terms, it's the second best May since the official end of the Great Recession (the best was May 2010, springing up off the low base of the recession trough -- please see the chart below).
- And at first blush it would seem encouraging that there was an upward revision of 34,000 to the awful March numbers payroll numbers (see "On the March Jobs Report" April 3, 2015). But in fact that doesn't even reverse the 41,000 *downward* revision last month (see "On the April Jobs Report" May 8, 2015), leaving that

Payroll growth MOM in post Great Recession expansion, starting July



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED:
A big beat, and a welcome increase in labor force participation. But upward revisions to March's awful numbers don't even offset last month's downward revisions. Short-term unemployment grew for the third month in a row, and improvement in long-term unemployment broke a three-month winning streak. With core inflation below trend and below target, and facing multiple uncertainties about the tools used to achieve "liftoff," we see no reason why the FOMC would change policy at the June meeting.

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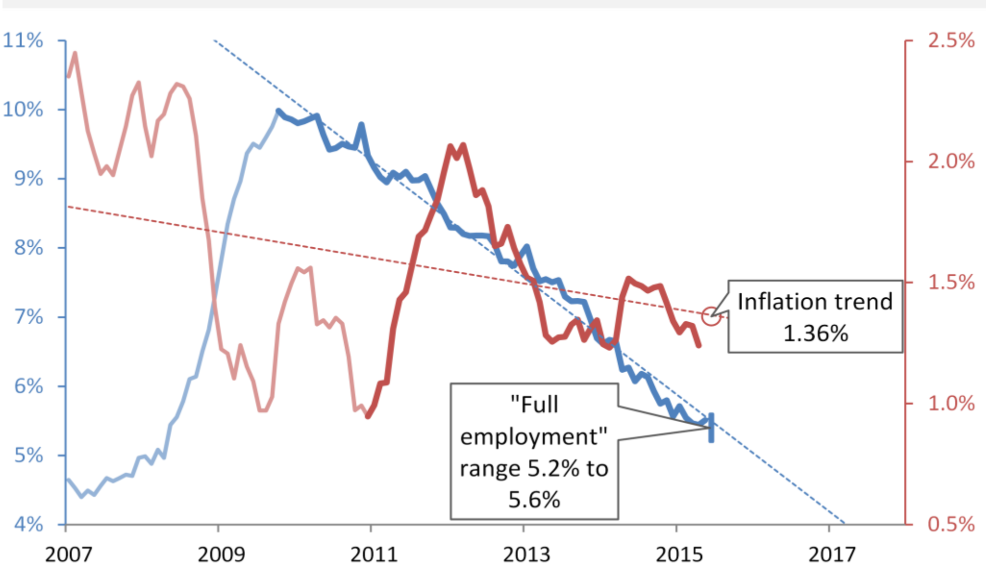
the worst March since the official recession trough (again, please see the chart on the previous page).

- The rise of 7 bp in the unemployment rate -- from 5.44% to 5.51% -- is not necessarily a bad thing. It is due to an increase in the size of the civilian labor force by 397,000 persons, 272,000 of whom are employed and 125,000 of whom are unemployed (see "Data Insights: Jobs" June 5, 2015).
- This should not be taken literally to mean that 125,000 individuals entered the labor force looking for a job and unable to find one. In fact, that overall increase in unemployment by 125,000 includes a rise of 68,000 in short-term joblessness (unemployed for 27 weeks or less) -- which is now the third increase in a row. Long-term unemployment increased, as well, by 57,000 -- breaking a 3-month winning streak.
- *Short-term unemployment has been about back at pre-recession levels for moths. Jobs gains, therefore, have necessarily come from the ranks of the long-term unemployed* (see "The Low Hanging Fruits of Our Labor" July 15, 2014). *It's been a powerful positive that such gains have, in fact, been materializing. But May is a counter-trend data-point.*
- From the point of view of Fed Chair Janet Yellen, this may be seen as evidence that the economy is at full employment, which would suggest to her that failure to normalize monetary policy at this point would lead to inflation.
- *But there is little evidence of inflation for her to worry about* (please see the chart below). The too-low inflation that has been so alarming to policy-makers this year (see "'Whatever It Takes' Comes to Jackson Hole" August 25, 2014) has largely been the result of the collapse in oil prices (see "The Deflation Hoax" January 8, 2015). But not entirely: the Fed's preferred inflation



Source: BLS, BEA, TrendMacro calculations

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gauge, personal consumption expenditures excluding food and energy, at 1.24%, is both below-trend and very far from the 2.00% policy target.

Overall we're satisfied that this jobs report confirms that the recession-risk we faced in the first quarter has been averted (see "Houston, You're the Problem" March 9, 2015). But from Yellen's perspective, averting a new recession is hardly the same thing as presiding over a robust expansion. With no visible inflation threat to act as a binding constraint against continued easy policy -- and with multiple uncertainties associated with the new tools the Fed will have to deploy to achieve liftoff (again, see "On the April Jobs Report") -- we continue to believe that the June FOMC will see policy remain unchanged.

Bottom line

A big beat, and a welcome increase in labor force participation. But upward revisions to March's awful numbers don't even offset last month's downward revisions. Short-term unemployment grew for the third month in a row, and improvement in long-term unemployment broke a three-month winning streak. With core inflation below trend and below target, and facing multiple uncertainties about the tools used to achieve "liftoff," we see no reason why the FOMC would change policy at the June meeting.