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TRENDMACRO LIVE!

On the December Jobs Report

Friday, January 8, 2016

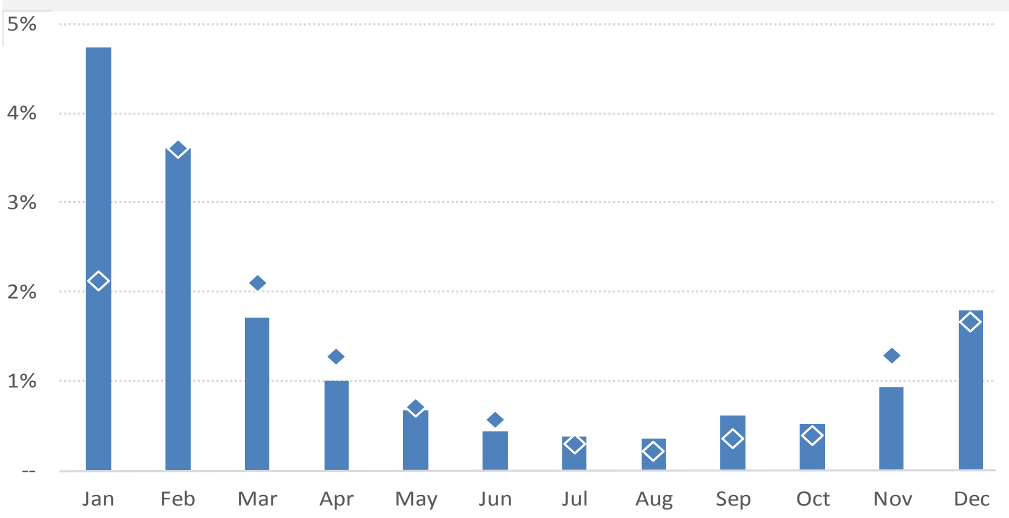
Donald Luskin

Jobs strong, markets weak. It means labor statistics look backward, markets look forward.

It's a mystery to us how this this morning's December Employment Situation report could have been so strong, given the substantive signs of weakness we see everywhere else in the global economy (see, most recently, our op-ed in this morning's *Wall Street Journal*). *It's also a mystery why, in the face of such an apparent upside surprise – 292,000 net nonfarm payroll gains, on top of 50,000 in upward revisions on the two prior months, versus expectations for 200,000 – the immediate reaction in markets was so muted. As of this writing an hour into the market day, there's really no particular reaction at all – not a burst of exuberance as though this data portended better times ahead, nor a spasm of fear that it will move the Fed to hike rates more rapidly.*

- It's not as though there aren't a lot of obvious flaws in the jobs data that strongly contradict the headlines.
- We can't thank the warm weather. Joblessness due to poor weather was only slightly below average for a December (please see the chart below).
- The gripe last month was that all the job gains came from part-time work (see "On the November Jobs Report" December 4, 2015).

Share of unemployment due to weather ■ **Average from 1976** ♦ **Latest month**



Source: BLS, TrendMacro calculations

Update to strategic view

This morning's big upside surprise in jobs shouldn't have been a surprise – it's been clear all week from early labor market indicators such as ADP payrolls and Challenger layoffs. We don't see a lot of hidden weakness in the internals – and warm weather doesn't explain it. The worst element is the slight downtick in average hourly earnings, the element most closely watched by the Fed, perhaps explaining why rate hike expectations barely budged following the data. More broadly, while this positive surprise has been brewing this week, markets have been very weak – implying that they are looking forward to risks not captured in backward-looking labor statistics.

This month, the share of the labor force working part-time involuntarily (that is, who would prefer full-time work), went down.

- If we had to pick nits, we'd point to the slight downtick in average hourly earnings, the single labor market statistic purportedly most watched by the Fed – because it is so key to the Fed's Phillips Curve argument that falling unemployment will lead to rising wages which will lead to recovering inflation (see "One Small Step -- In the Wrong Direction" November 23, 2015). The argument is spurious, but be that as it may, this morning's data gives those who make that spurious argument no ammunition.
- Or we could point out that the number of long-term unemployed persons (that is, jobless for 27 weeks or more) increased by 73,000.
- But that's about it for the negatives. The labor force grew, the labor force participation rate grew, the outflow-rate from unemployment grew. On the face of it, it's all good.

So why no reaction in markets?

- It's not just that equities and long-term yields haven't reacted. Market-based expectations for Fed actions haven't reacted much either. There's still not a strong expectation for another hike until the June FOMC, and the implied funds rate three years out is just 1.5% -- down about 45 basis points from where it was in the afternoon following "liftoff" at the December FOMC (see "On the December FOMC" December 16, 2015).
- Perhaps this morning's surprise really shouldn't have been a surprise in the first place. The labor market data that has dribbled out this week – ADP payrolls, ISM employment, Challenger layoffs, and new jobless claims – pointed, in our model, to a 250,000 payroll gain, less of a surprise than the one we got, but still quite substantial.
- *But while all these positive hints were coming out, global markets were quite weak – suggesting that they are looking forward to risks not captured in backward-looking US labor market data.*
- *That's how we come down on it, too.*

Bottom line

This morning's big upside surprise in jobs shouldn't have been a surprise – it's been clear all week from early labor market indicators such as ADP payrolls and Challenger layoffs. We don't see a lot of hidden weakness in the internals – and warm weather doesn't explain it. The worst element is the zero growth in average hourly earnings, the element most closely watched by the Fed, perhaps explaining why rate hike expectations barely budged following the data. More broadly, while this positive surprise has been brewing this week, markets have been very weak – implying that they are looking forward to risks not captured in backward-looking labor statistics.

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Lunch with the FT: Charles Koch
Stephen Foley
Financial Times
December 8, 2015

China learns a costly lesson
Scott Grannis
Calafia Beach Pundit
January 7, 2016

People who are not in the labor force: why aren't they working?
Steven F. Hipple
Bureau of Labor Statistics
Beyond the Numbers
December 2015

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