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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 6, 2016

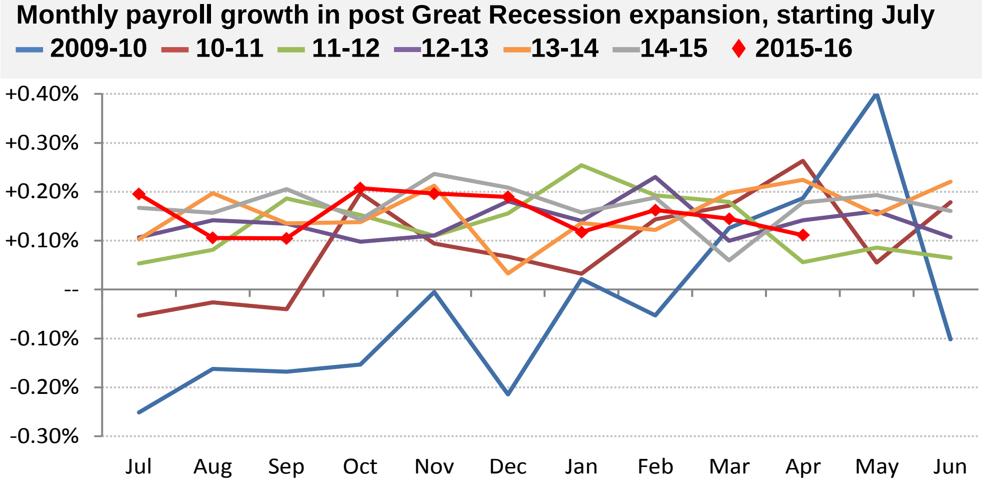
Donald Luskin

Paradox resolved: the lagging labor market catches up with weakness in everything else.

This morning's April Employment Situation report was a major miss with only 160,000 net payroll jobs, versus the consensus for 200,000 – and a downward revision of 19,000. It's is a downpayment on resolving a paradox. For the prior two quarters, the US economy has been in a mini-recession, the first-ever recession caused by too-low oil prices. It's been in all the macro data – housing, capital investment, retail sales and so on – except jobs. No surprise, really. Labor markets are sticky. They lag.

- That said, we've been pointing out all along that the seeming strength of the labor market isn't all it's been cracked up to be (see, for example, "On the March Jobs Report" April 1, 2016). The payroll growth rate has been generally slowing for several quarters now, tending to be only in the middle of the pack for the Not So Great Expansion following the Great Recession.
- This morning's payroll growth rate makes the second-worst April, beating only April 2012 – when the economy was falling into a mini-recession so worrisome that it resulted a few months later in QE3 (please see the chart below).
- *Almost needless to say, but if there was any doubt before, now there is not: as we've been saying from the moment the Fed "lifted off," there will be no rate hikes in 2016* (see "On the December FOMC" December 16, 2015).

Monthly payroll growth in post Great Recession expansion, starting July



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: The seeming paradox of a strong labor market standing alone amidst generally declining macro data has been partially resolved with this morning's big payroll miss and downward revisions. In fact job growth has been weak for the prior two quarters, and this new more visible weakness just confirms that sticky labor markets tend to lag. This is not, then, new negative information. With oil having double-bottomed, the mini-recession caused by too-low oil processes is over. And today's numbers only help get the Fed unstuck from stupid – essentially ruling out another rate hike this year, as we've been saying all along.

[Strategy dashboard]

- To be clear, we don't regard this morning's jobs numbers as surprising or alarming – only confirming, catching up finally with recessionary trends that have long ago shown up everywhere else. This is not new information, and it doesn't change our forecast for the economy toward the negative.
- *Indeed, we continue to think that the economy is now poised to recover from its mini-recession – because, with oil having put in a durable double-bottom in January and February – the force that was causing the mini-recession (too-low oil prices) has stopped doing so* (see "Have We Suffered Enough?" February 26, 2016).
- While we're not surprised, perhaps Fed Chair Janet Yellen is. But then again, she has prepared herself for surprises by having recently enshrined "uncertainty" as a pillar of her policy doctrine (see "Yellen Adds 'Uncertainty'" March 30, 2016).
- Other than too-low oil prices, it was the specter of the Fed being stuck on stupid after "liftoff" that was the biggest threat to growth. Both threats are gone now, and this morning's numbers only help.

Bottom line

The seeming paradox of a strong labor market standing alone amidst generally declining macro data has been partially resolved with this morning's big payroll miss and downward revisions. In fact job growth has been weak for the prior two quarters, and this new more visible weakness just confirms that sticky labor markets tend to lag. This is not, then, new negative information. With oil having double-bottomed, the mini-recession caused by too-low oil processes is over. And today's numbers only help get the Fed unstuck from stupid – essentially ruling out another rate hike this year, as we've been saying all along.

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