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TRENDMACRO LIVE!

On the May Jobs Report

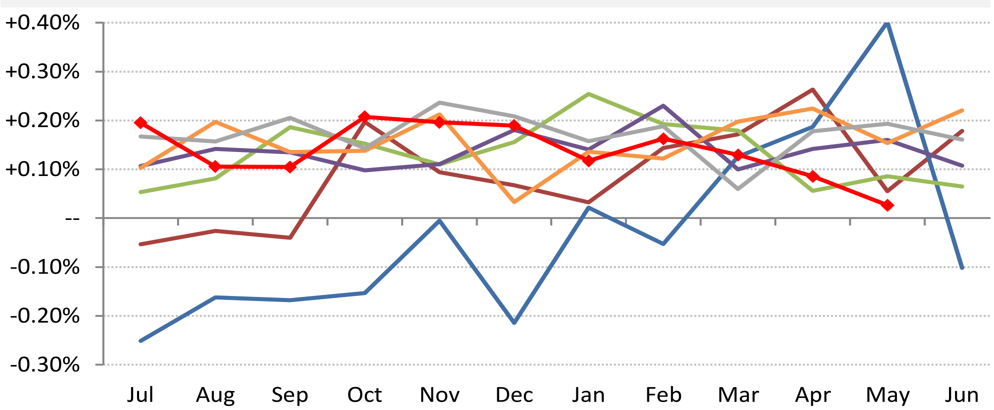
Friday, June 3, 2016

Donald Luskin

The worst this cycle. If it weren't for revisions, payroll growth would have been negative.

This morning's May Employment Situation report was the worst May since the end of the Great Recession (please see the chart below). The huge miss in net payroll gains of only 38,000 (the consensus was for 160,000) is even worse than it looks. *This meager gain is built on downward revisions to the prior two months of 59,000. If it hadn't been for those revisions, this morning's headline would have been a net contraction in payrolls of 21,000.*

Monthly payroll growth in post Great Recession expansion, starting July
2009-10 10-11 11-12 12-13 13-14 14-15 2015-16



Source: BLS, TrendMacro calculations

So much for the chorus of over-eager normalizers at the Fed who have been sweetly singing that policy rates must be hiked "at least twice" this year as the labor market improves (see "For the Fed, Wrong is Better than Stupid" May 31, 2016, and "Is the Fed Stuck on Stupid?" May 20). Remarkably, the cartel of Fed-watchers who are more concerned with getting regional Fed presidents to return their calls than they are with making correct policy forecasts, are still clinging to the fantasy that there could be a rate hike at the July FOMC.

- Federal Reserve Board Governor Daniel Tarullo and Chicago Fed President Charles Evans – both of whom came out yesterday urging caution in future rate hikes – suddenly look pretty smart.

But wait. This morning's numbers get way worse.

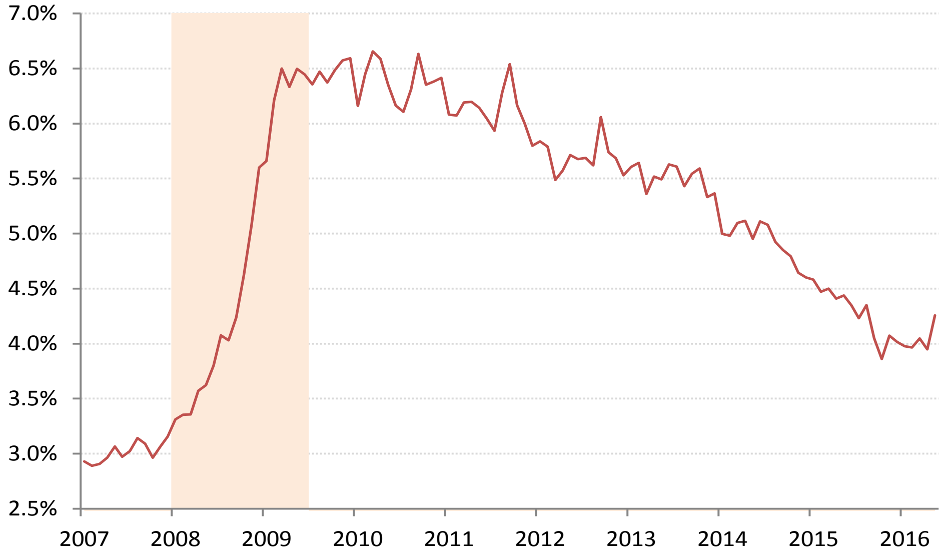
Update to strategic view

US MACRO, US FED: A disastrous jobs report. If it weren't for a downward revision of 59,000 payrolls, the May headline would not be a meager gain of 38,000 but a contraction of 21,000. Almost half a million persons evacuated the labor force, half of them from among the ranks of the long-term unemployed. The number of persons working part-time involuntarily, Yellen's favorite indicator of labor slack, rose by almost half a million. So much for the Beige Book's "tight labor markets," and for any chance of the Fed hiking rates any time soon. We don't see this as alarming new evidence of recession. Labor markets lag, and this is an echo of the mini-recession caused by too-low oil prices. With oil recovered, that is over with. This is a classic case of "bad news is good news."

[Strategy dashboard]

- *The seemingly rosy drop in the unemployment rate to a new cycle low of 4.7% is only because 458,000 persons left the labor force* – 231,000 from the ranks of the long-term unemployed, who finally gave up looking for work last month (see "Data Insights: Jobs" June 3, 2016).
- And the people still in the labor force, and still working, aren't thrilled about it. *The number of persons working part-time involuntarily – that is, who would prefer full-time work but cannot find it – increased by 468,000* (please see the chart below). This evidence of remaining slack in the labor force has long been a favorite of Fed Chair Janet Yellen.

Persons working part-time involuntarily Share of employed labor force
Recession



Source: BLS, TrendMacro calculations

- So much for the "tight labor markets" that "were widely noted" in Tuesday's June Beige Book.

This bad news this morning brutally continues the trend of last month's data – that is, to resolve the seeming paradox between generally weak macro data alongside fairly strong labor numbers (see "On the April Jobs Report" May 6, 2016).

- Yellen herself pointed with some consternation to this paradox last week in her conversation at Harvard with Greg Mankiw: "…with the labor markets improved, a notable and less positive development is that the growth of output has been remarkably slow."
- Yellen should learn from Ayn Rand, who said "Contradictions do not exist. Whenever you think you are facing a contradiction, check your premises. You will find that one of them is wrong."
- In this case, all of Yellen's premises are wrong.
- The labor markets aren't especially "improved." Among other obvious symptoms, the labor force participation rate is at a

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[About us]

Recommended Reading

Daniel Tarullo: The One-Man 'Judge and Jury' for Banks
Ryan Tracy and Emily Glazer
Wall Street Journal
May 31, 2016

Snow White Spotted at Wanda City Triggers Backlash From Disney
Bloomberg News
May 30, 2016

A lesson on infrastructure from the Anderson Bridge fiasco
Lawrence H. Summers and Rachel Lipson
Boston Globe
May 25, 2016

[Reading home]

generational low – while, at the same time, long-term unemployment among the dead-enders still in the labor force is at a generational high.

- And there is nothing "remarkable" about slow output growth in the Not So Great Recovery following the Great Recession. Among other factors, it is due mainly to the highest real oil prices in history, which obtained through mid-2014. Then as oil prices crashed, that itself was a shock that came close to inducing the first-ever recession caused by too-low oil prices (see "The Recession Caused by Low Oil Prices" January 8, 2016).
- The particular weakness that has hit the labor market over the last couple months is the lagging consequence of that near-recession. Labor markets *always* lag.
- That's good news because with oil having double-bottomed at WTI-$26 in January and February (see "Oil: Priced for Perfection in an Imperfect World" January 20, 2016), that near-recession is over – as we are seeing across a broad front of improving data this quarter (see "Have We Suffered Enough?" February 26, 2016).
- So we don't see this morning's jobs report as new recessionary evidence. Indeed, it's probably a pretty classic case of "bad news is good news." In this instance, it will at least delay the Fed from making a policy error, giving the recovery from near-recession a lot more runway.

Bottom line

A disastrous jobs report. If it weren't for a downward revision of 59,000 payrolls, the May headline would not be a meager gain of 38,000 but a contraction of 21,000. Almost half a million persons evacuated the labor force, half of them from among the ranks of the long-term unemployed. The number of persons working part-time involuntarily, Yellen's favorite indicator of labor slack, rose by almost half a million. So much for the Beige Book's "tight labor markets," and for any chance of the Fed hiking rates any time soon. We don't see this as alarming new evidence of recession. Labor markets lag, and this is an echo of the mini-recession caused by too-low oil prices. With oil recovered, that is over with. This is a classic case of "bad news is good news."