TrendMacro

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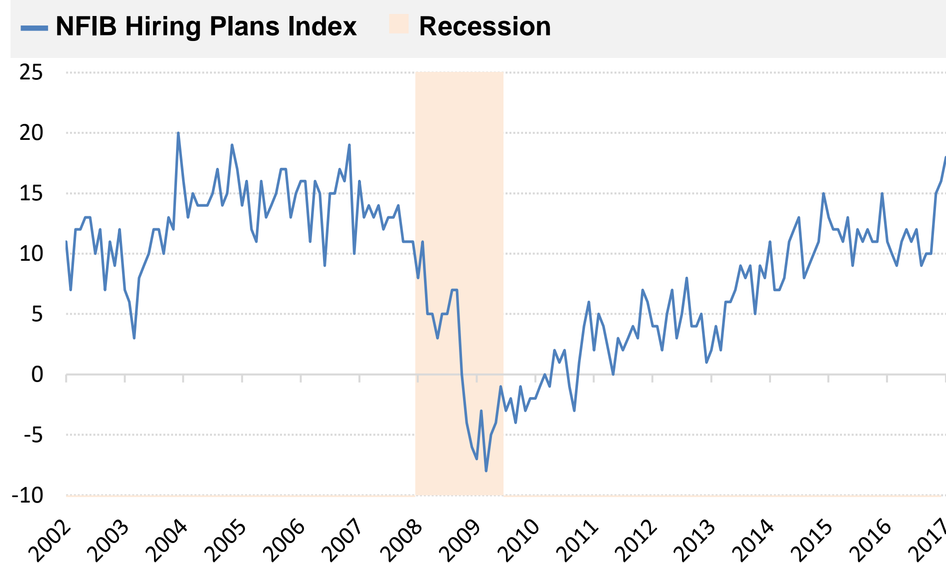
TRENDMACRO LIVE!

On the January Jobs Report

Friday, February 3, 2017
Donald Luskin

Post-election animal spirits drive a big beat, while the Fed is comforted by small wage gains.

This morning's January Employment Situation report with 227,000 net payrolls was a big beat versus consensus expectations for 175,000 – all the more so for upward revisions of 24,000 across the prior two reports. We expected a beat, based on conventional contemporaneous labor market indicators. Indeed, the net-net gain of 251,000 payrolls – that is, the headline gain plus prior-months' revisions – is precisely what our model predicted. This month that model was strongly influenced by the breakout in the Hiring Plans Index of the National Federation of Independent Business to a level not seen for more than 10 years (please see the chart below).



Source: NFIB, NBER, TrendMacro calculations

- This would seem to be evidence in favor of our longstanding expectation that the election of Donald J. Trump would fire up "animal spirits" that would drive grass-roots growth and job creation (see, most recently, "2017: It's Bigger than The Donald" December 30, 2016).
- That's consistent with the uptick in the labor force participation rate reported this morning, and the growth of the labor force by 76,000,

Update to strategic view

US MACRO, US FED, US BONDS: The big headline beat in payrolls is exactly what our model predicted, based on contemporaneous labor market indicators including the breakout in the NFIB's Hiring Plan's Index. It seems that the revival of "animal spirits" associated with Trump's election have begun to drive grass-roots growth and job creation, following the "mid-cycle refresh" provided by the near-recession one year ago. The tepid growth in average hourly earnings, coming on the back of a downward revision to last months' big gain, will comfort dead-enders at the Fed who fear that employment causes inflation. Bonds are wrong to rally on this development. A less hawkish Fed, along with the second leg up in growth that we forecast, will drive yields higher.

[Strategy dashboard]

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which are the benign explanation for why the unemployment rate ticked up to 4.8% from 4.7%.

- Happily, while we see this as entirely consistent with a resurgence of growth – coming out of the mid-cycle refresh provided by the near-recession of one year ago (see "Have We Suffered Enough?" February 26, 2016) – dead-enders at the Fed who still believe that employment causes inflation will not be alarmed by this morning's jobs report.
- For them, the tepid 0.1% gain in average hourly earnings will be assurance that there is no "wage/price spiral" spinning up. January's gain is all the more unalarming because December's attention-getting gain initially reported at 0.4% (see "On the December Jobs Report" February 3, 2017) was revised down to only 0.2% – thus the gain reported this morning, tepid as it was, was from a lower base (see "Data Insights: Jobs" January 6, 2017).
- So for the moment, bonds are rallying a bit based on the significant downgrading in Fed rate hike probabilities since the jobs report was released. But that's short-sighted. For one thing, throughout the aftermath of the Great Recession, we've seen over and over that a less hawkish Fed drives yields higher, while a more hawkish Fed drives them lower. But more fundamentally, *if we're right that we're at the beginning of another leg up in growth, then bond yields will have to move higher, with the Fed only gradually following along* (see "On the February FOMC" February 2, 2017).

Bottom line

The big headline beat in payrolls is exactly what our model predicted, based on contemporaneous labor market indicators including the breakout in the NFIB's Hiring Plan's Index. It seems that the revival of "animal spirits" associated with Trump's election have begun to drive grass-roots growth and job creation, following the "mid-cycle refresh" provided by the near-recession one year ago. The tepid growth in average hourly earnings, coming on the back of a downward revision to last months' big gain, will comfort dead-enders at the Fed who fear that employment causes inflation. Bonds are wrong to rally on this development. A less hawkish Fed, along with the second leg up in growth that we forecast, will drive yields higher.

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