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TRENDMACRO LIVE!

On the June Jobs Report

Friday, July 7, 2017

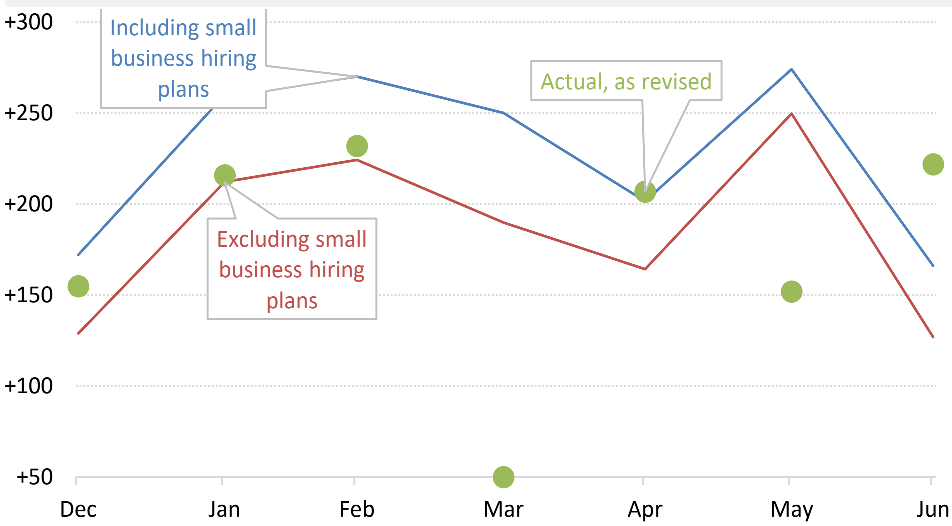
Donald Luskin

Reversing the pattern, payrolls are strong while other labor market indicators are weak.

This morning's June Employment Situation report with 222,000 net payroll gains was a big upside surprise versus the consensus of 178,000. It was all the more impressive for coming on top of upward revisions of 47,000 across the prior two months. *But take it with a grain a salt. We think jobs reports have been screwy since March, and this one is no exception.*

- The March and May jobs reports were out-of-synch – on the downside – with a broad front of other very strong contemporaneous labor market indicators (please see the chart below). *Now today's jobs report was out of synch, too – but on the upside – with other indicators weak.*

Payrolls versus regression of contemporaneous labor market indicators



Source: BLS, ISM, ADP, Challenger, NFIB, TrendMacro calculations

Other than the potentially deceptively strong net payroll gain number, the best thing about today's jobs report was labor force growth of 361,000, moving the labor force participation rate up to 62.8%.

- *The participation rate continues in an uptrend* begun in September 2015. We see this as the beginning of an enduring secular trend as

Update to strategic view

US MACRO, US FED: A big upside surprise on top of upward revisions – but payroll data continues to be screwy, out-of-synch with a broad front of other contemporaneous labor market indicators. Those have been strong when payrolls seemed weak, and this month those are weak when payrolls seem strong. The unemployment rate ticked up because of growth in the labor force, suggesting considerable slack still in the labor market as the prime-age labor force gets younger. This is underscored by Fed-friendly sluggish wage gains. It was a poor month for labor market internals, with the job-finding probability falling while the separation probability rose; long-term unemployment rose for the second month in a row, and involuntary part-time work expanded. Overall we see none of this as posing a cyclical threat to the US economy.

[Strategy dashboard]

the US prime-age working population gets younger, with aging baby boomers having mostly already rolled off (see "The Demographics Myth" March 20, 2017).

- *This implies that there is still considerable slack in the labor force, and that the headline unemployment rate of 4.4% is still deceptively low.* Indeed, it ticked up in this morning's report – despite net jobs gains – precisely because the labor force grew even faster than new jobs.

Let's look at some other less encouraging elements of this morning's report, to see the soft underbelly that comports better with the weaker readings we've seen in the other contemporaneous indicators (see "Data Insights: Jobs" July 7, 2017). *To be clear at the outset, we don't see any of this necessarily implying an overall cyclical threat to the US economy.*

- Long-term unemployment ticked up, for the second month in a row.
- While the "household survey" with 245,000 net new employment beat the "payroll survey" with 222,000 net new payrolls, on an apples-for-apples basis it showed a loss of 86,000.
- This is, in part, due to an uptick in the portion of the labor force working part-time, who would prefer full-time jobs.
- A divergence like this – with the "payroll survey" beating the "household survey," suggests job creation outperformance by large firms over small firms. We think the economy is more dynamic when small firms out-hire large.
- The monthly job-finding probability ticked down for the second month in a row.
- The monthly separation probability ticked up. Coming from a disturbingly low level, that implies lack of labor market dynamism, so it is not a bad thing to see this uptick. But we would have preferred to see a simultaneous uptick in the job-finding probability.
- Finally, while there is nothing inherently encouraging in yet another month of sluggish gains in average hourly earnings, at least this closely-watch figure suggests that that Fed has no new reason to raise rates faster than it ought to do, based on the Phillips Curve fallacy that rising wages cause inflation.

Bottom line

A big upside surprise on top of upward revisions – but payroll data continues to be screwy, out-of-synch with a broad front of other contemporaneous labor market indicators. Those have been strong when payrolls seemed weak, and this month those are weak when payrolls seem strong. The unemployment rate ticked up because of growth in the labor force, suggesting considerable slack still in the labor market as the prime-age labor force gets younger. This is underscored by Fed-friendly sluggish wage gains. It was a poor month for labor market internals, with the job-finding probability falling while the separation probability rose; long-term unemployment rose for the second month in a row, and involuntary part-time work expanded. Overall we see none of this as posing a cyclical threat to the US economy.

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David Gelernter
Wall Street Journal
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