Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 4, 2018

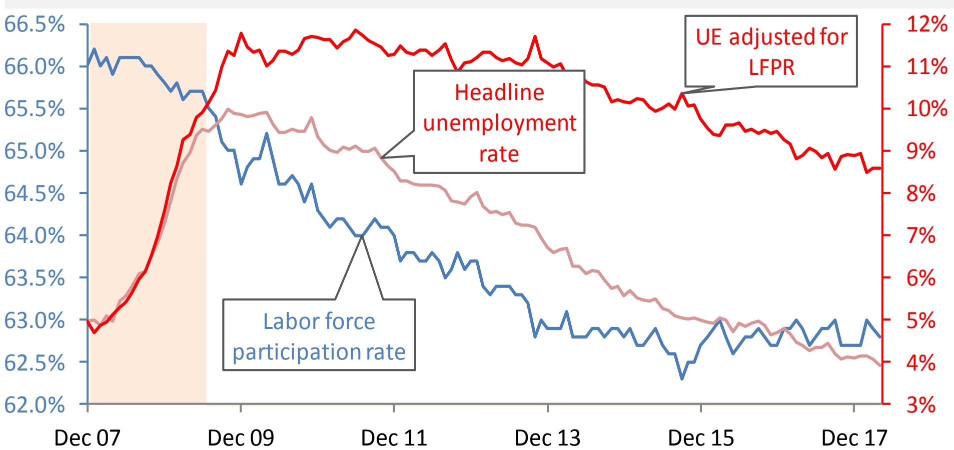
Donald Luskin

Payrolls weren't really a miss. The unemployment rate didn't really go down. Other than that…

This morning's April Employment Situation report is all about the revisions and the hidden internals. It's not as weak as it looks, and it's Fed-friendly.

- 164,000 net payrolls for April seems like a 29,000 miss versus the consensus for 193,000 – *the miss is almost precisely explained by upward revisions of 30,000 to the prior two months, including a welcome 32,000 upward revision to March's seeming terrible report* (which we said at the time was an anomaly see "On the March Jobs Report, and New China Tariffs" April 6, 2018).
- *Indeed, April payrolls should have been a beat, and we think it will likely be revised higher.* Our model based on other objective contemporaneous labor market statistics indicates growth of 195,000.
- *Fed-friendly average hourly earnings growth of only 0.1% month-over-month is even more Fed-friendly that it looks* – it would have been zero of last month's strong-seeming 0.3% hadn't been revised down to 0.2%.
- *The drop in the unemployment rate to 3.93% takes it to a level not seen since December 2000 – but this is "fake news," and Fed-friendly, too.* Yes, unemployment fell by 239,000 in April. But that's only because 236,000 persons left the labor force, all of whom were unemployed. That computationally – and illusorily – lowers

Headline and underlying unemployment rates



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: The seeming miss in today's headline payrolls is entirely explained by upward revisions to last month's anomalously weak report. But it should have been a beat, based on contemporaneous labor market indicators, and is likely to be revised upward next month. There would have been no gain at all in average hourly earnings if last month's anomalously strong number hadn't been revised lower. The downtick in the unemployment rate to the seemingly low level not seen since December 2000 was only because labor force participation shrank. There's nothing here to make the Fed more hawkish. We believe there are still 1.4 million detached workers who could join the labor force, and that the economy is still 1.9 million jobs from full employment.

[Strategy dashboard]

the unemployment rate. Adjusted for labor force participation, the unemployment rate actually ticked *up* in April the same small increment by which the reported unemployment rate ticked *down* (please see the chart on the previous page).

- According to our read of the evolving demographics of aging (the prime-age workforce is getting *younger*, not *older*) and education (the work force has never been so well-educated) – and benchmarking against historical records for unemployment in economic expansions *– we believe that today there are still 1.4 million detached workers who could join the labor force, and that the economy is still 1.9 million jobs from full employment* (see "Data Insights: Jobs" May 4, 2018, and "The Demographics Myth" March 20, 2017).

Bottom line

The seeming miss in today's headline payrolls is entirely explained by upward revisions to last month's anomalously weak report. But it should have been a beat, based on contemporaneous labor market indicators, and is likely to be revised upward next month. There would have been no gain at all in average hourly earnings if last month's anomalously strong number hadn't been revised lower. The downtick in the unemployment rate to the seemingly low level not seen since December 2000 was only because labor force participation shrank. There's nothing here to make the Fed more hawkish. We believe there are still 1.4 million detached workers who could join the labor force, and that the economy is still 1.9 million jobs from full employment.

Contact
TrendMacro

On the web at
trendmacro.com

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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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