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

TRENDMACRO LIVE!

On the September Jobs Report

Friday, October 5, 2018

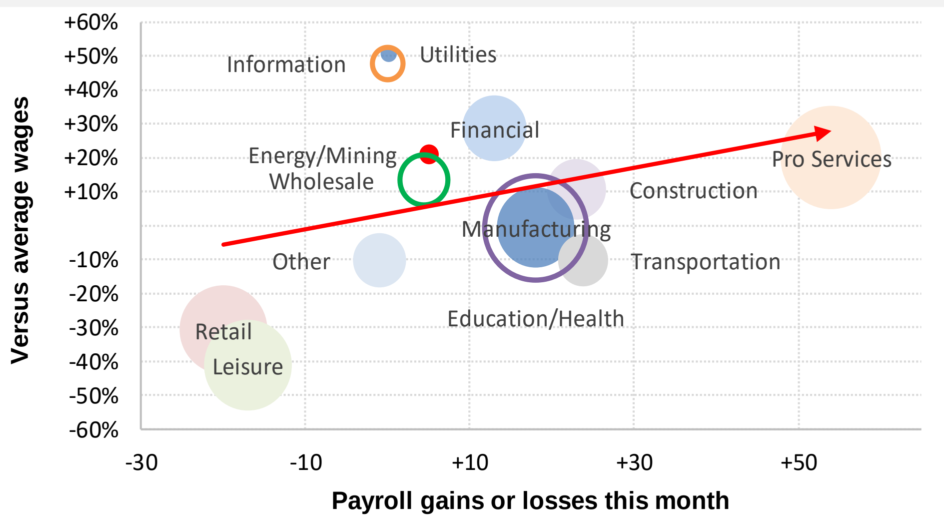
Donald Luskin

Massive revisions make a beat out of what looks like a miss, while earnings revised lower.

This morning's September Employment Situation report with 134,000 net payrolls looks like a big miss versus consensus expectations for 185,000. *But it's actually a big beat given very large upward revisions of 87,000 for the prior two months.* This brings it into line with all the other contemporaneous indicators of job growth for September.

- The "household survey" was strong, with employment higher by 420,000 and unemployment lower by 270,000. This implies that the labor force grew by 150,000 persons, more than all of whom were immediately employed. That's why the unemployment rate fell to a new cycle low of 3.68%.
- *The probability of getting a job within a month rose to 37.5%, the best so far since the Global Financial Crisis* (see "Data Insights: Jobs" October 5, 2018). *But it's still low by historical standards, suggesting that the economy is not running out of workers yet, but is still able to draw on a grey-market of underemployed who don't get counted in official unemployment statistics.*
- September was one of those rare months in which higher-earning sectors attracted a disproportionate share of payroll gains (please see the chart below).

Relation of payroll gains to average wages — Trend



Source: Bureau of Labor Statistics, TrendMacro calculations

Update to strategic view

US MACRO, US FED, US BONDS: Very large upward revisions to the prior two months make a beat out what looked like a big payroll miss. The labor force grew, with more than all new entrants employed, bringing the unemployment rate to a new cycle low. The monthly job-finding probability made a new cycle high, but it's still low by historical standards, suggesting there is still slack in the labor market. Payroll growth was disproportionately in higher-paying sectors. Yet hourly earnings growth fell, despite last month's growth being revised lower. There is nothing here to make the Fed worried about Phillips Curve pressures. Along with other continued evidence of sustained growth, such as Wednesday's ISM non-manufacturing report, it supports the higher long-term bond yields that are finally fulfilling our long-standing expectation.

[Strategy dashboard]

- Yet hourly earnings grew by 0.29% on the month, down 0.04% from August's attention-getting number, which was itself revised down by another 0.4% (see "On the August Jobs Report, and the Wage Conundrum" September 7, 2018). This is remarkable given the disproportionate payroll gains in higher-paying sectors.
- Though Fed Chair Jerome Powell gives speeches meandering about the mysteries of the Phillips Curve*, there is nothing in this tepid earnings growth number that should give any sensible policy-maker anything to worry about.*
- We don't think for one minute that this week's back-up in long-term bond yields has anything to do with allegedly hawkish remarks by Powell yesterday, meditating on the possibility of eventually taking rates above neutral. First and foremost, when expectations move toward the hawkish, yields should fall, not rise, thanks to diminishing growth and inflation expectations. But be that as it may, Powell said literally the same thing at last week's post-FOMC press conference (see "On the September FOMC" September 26, 2018). Nothing new here.
- At Jackson Hole he admitted no one has any idea of what neutral is, anyway (see "On Powell's Debut at Jackson Hole" August 24, 2018 and "The Fault is in R-Star" September 17, 2018).
- Bond yields are backing up, as we have expected, precisely because Powell is *not* hawkish in the face of continuing strong evidence of sustained growth, such as Wednesday's blockbuster ISM non-manufacturing report (see "Data Insights: Global PMI" October 3, 2018). As the first non-independent Fed chair since G. William Miller, he is constitutionally incapable of hawkishness without permission, which we doubt President Donald J. Trump will ever give him (see "Like It or Not, Trump is Right about the Fed" July 20, 2018).

Bottom line

Very large upward revisions to the prior two months make a beat out what looked like a big payroll miss. The labor force grew, with more than all new entrants employed, bringing the unemployment rate to a new cycle low. The monthly job-finding probability made a new cycle high, but it's still low by historical standards, suggesting there is still slack in the labor market. Payroll growth was disproportionately in higher-paying sectors. Yet hourly earnings growth fell, despite last month's growth being revised lower. There is nothing here to make the Fed worried about Phillips Curve pressures. Along with other continued evidence of sustained growth, such as Wednesday's ISM non-manufacturing report, it supports the higher long-term bond yields that are finally fulfilling our long-standing expectation.

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

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

[About us]

Recommended Reading

For Once, I'm Grateful for Trump
Bret Stephens
New York Times
October 4, 2018

How China Systematically Pries Technology From U.S. Companies
Lingling Wei Bob Davis
Wall Street Journal
September 26, 2018

[Reading home]