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TRENDMACRO LIVE!

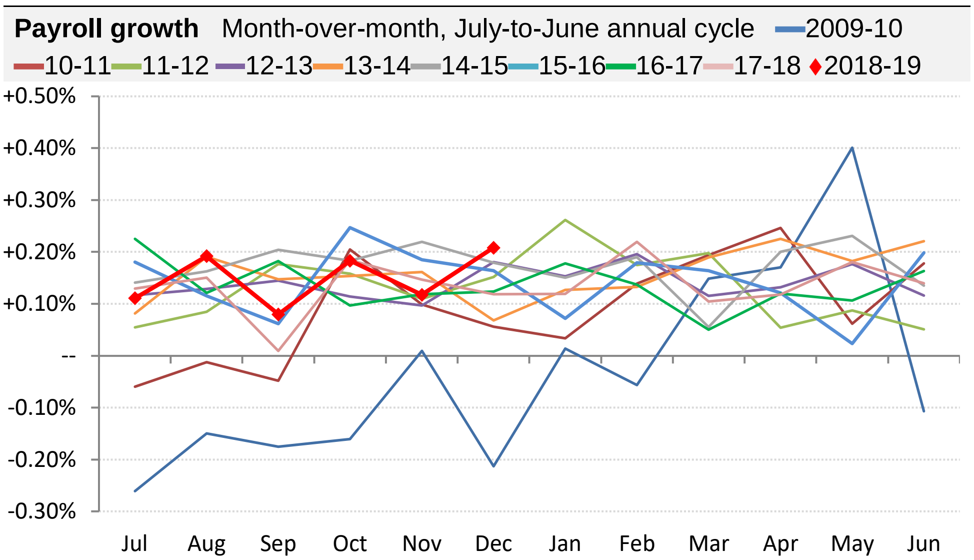
On the December Jobs Report

Friday, January 4, 2019

Donald Luskin

A huge beat relieves the stench of impending recession. We face the risks from strength.

Wow. We knew it was going to be a beat versus the consensus for 184,000 net payroll gains. Our model based on contemporaneous labor market statistics was saying 235,000 to 243,000. The actual print in this morning's December Employment Situation report at 312,000 is a shocker, and all the more so because it stands on upward revisions to the two prior months totaling 58,000. *This was the best December so far in the business cycle expansion following the Global Financial Crisis*, all the more remarkable for being 9-1/2 year into that cycle (please see the chart below, and see "Data Insights: Jobs" January 4, 2019).



Source: Bureau of Labor Statistics, TrendMacro calculations

- Upward revisions of 21,000 to November's paltry 155,000 payroll gains clears some of the stench of incipient recession from *that* print (see "On the November Jobs Report" December 7, 2018). And if it weren't for all the things in the global economy that are eroding confidence(see "2019 Outlook: Confidence Rots from the Head Down" December 31, 2018), and the gentle roll-over in forward earnings that is now entering its third month (see "Recession Risk at Last?" November 20, 2018), *we wouldn't blame you if this morning's print made you think there weren't a problem in the world.*
- It's not due to a bounceback from the prior two months of difficult

Update to strategic view

US MACRO, US FED: Today's 312,000 net payroll gains make the best December in this business cycle, and are an even more impressive beat versus the consensus considering that the prior two months were revised up by 57,000. Weather had nothing to do with it. The labor force participation rate rose with 419,000 new entrants to the labor force, which caused the unemployment rate to uptick from 3.7% to 3.9%. The economy is manifestly not running out of workers. That should offset strong hourly wage gains in Powell's mind – but no matter, he has cut a deal with Mnuchin. The US economy faces real tail-risks, but we start from a position of strength.

[Strategy dashboard]

early-winter weather, either. For December, the share of unemployed blaming it on weather didn't change from November.

- The labor force participation rate rose to 63.1%, matching last year's short-lived peak, which was the highest since 2013. 419,000 workers came into a civilian labor force that is already supposedly at full employment. They were not all immediately employed, so the unemployment rate ticked up to 3.9% from 3.7% – but it's terrific news that, as we've been saying for many months, the economy is not "running out of workers." The "younging" of the prime age population, and the millennial surge in educational attainment mean much more potential for labor force entry than the usual analyses can capture (see, for example, "On the July Jobs Report, and The Education Dividend" August 3, 2018).
- Today's strong-ish 0.4% gain in average hourly wages raises questions of whether Fed Chair Jerome Powell now has a weapon with which to resist dovish blandishments from President Donald J. Trump or, for that matter, Mr. Market. We don't think so. *To any extent he's hung up on Phillips Curve logic that full employment causes inflation – which a central bank should pre-emptively quash – the better wage numbers are nicely offset by the uptick in the unemployment rate. Besides, we continue to be quite sure that Powell has cut a deal with Trump*, via Treasury Secretary Steven Mnuchin, under which he can either keep his job (conditional on more dovish behavior) or be allowed to leave with dignity, and a sweet sinecure (see "Did Powell Just Cut a Deal?" December 23, 2018). *We think markets have begun to take our view on board. The OIS forward curve, prior to the jobs report, was implying no more hikes at all, and indeed one-and-a-half cuts over three years. Those dovish expectations only moderated minimally after the jobs print.*
- We'll know more about that after Powell's appearance this morning on-stage with former chairs Ben Bernanke and Janet Yellen, his first opportunity to rehabilitate himself after his disastrous December FOMC press conference (see "It's Not 'Quantitative Tightening' – It's Powell" December 20, 2018).

Against the backdrop of increasing pessimistic macro expectations, we would contextualize this morning's very strong jobs number this way. While there are many signs of stress – and many very tangible tail-risks that are eroding confidence – the real US economy is, as clients constantly point out in conversations, weirdly strong despite it all. We see little tangible evidence of "excesses" that typically impart late-cycle fragility. Whatever the risks – and they are real, to be sure (see, for example, "Death by China on the Way to Yes" December 17, 2018) – we are facing them from a position of strength. "Playing with the bank's money," as Trump puts it.

Bottom line

Today's 312,000 net payroll gains make the best December in this business cycle, and are an even more impressive beat versus the consensus considering that the prior two months were revised up by 57,000. Weather had nothing to do with it. The labor force participation rate

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Katherine Stewart
New York Times
December 31, 2018

The World Is Getting Quietly, Relentlessly Better
Greg Ip
Wall Street Journal
January 2, 2019

Khashoggi: Qatari Asset in Life; Qatari Asset in Death
David Reaboi
Security Studies Group
December 23, 2018

The future might not belong to China
Martin Wolf
Financial Times
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