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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 3, 2019

Donald Luskin

Today's strong numbers are as full of contradictions as February's weak ones.

This morning's April Employment Situation report with 263,000 net payrolls is a big beat versus consensus expectations for 190,000. It is consistent with other contemporaneous labor market statistics, with which our model had us expecting 248,000 to 252,000. The beat is even better than it looks, because of net upward revisions of 16,000 for the prior two months.

- Of that revision, 23,000 was for February – the terrible recession-reeking jobs report that originally showed net gains of only 20,000 payrolls (see "On the February Jobs Report" March 8, 2019). With last month's revisions of 13,000, February is now in the history books as a net gain of 56,000. Even that higher number remains very inconsistent with all other February labor market data. But it is consistent with the Q1-2019 GDP data which, despite a nice headline number of 3.2% growth, we think was actually much weaker (see "Video: What you're not hearing about Q1-2019 GDP" April 26, 2019).
- *With today's very robust jobs report, everything seems to be lining up to point to Q4-2018 and Q1-2019 as a small "undocumented recession," much like that of Q4-2015 and Q1-2016. That episode and the present one were cause by all the same shocks – fears of a China hard-landing, a collapse in oil prices, a contraction in inflation expectations, a blow-out in credit spreads and real yields, and a rogue Fed chair on "autopilot"* (see "So About That Recession" April 15, 2019). *Like the earlier similar episode, we think this latest weak patch, absent some new shock, will serve as a mid-cycle refresh that should prolong the present business cycle expansion.*
- All that said, it must be admitted that in its own way today's jobs data, like February's, has some internal inconsistencies that should make us as cautious about upside implications as we were in February about downside implications.
- Some media reports anticipated that some statistic noise would be injected by the federal government's beginning to staff up for the 2020 census. As it turned out though, there was no evidence of that in this morning's numbers.
- But at the same time as payrolls print a net gain of 263,000, the "household survey" data converted to a "payroll basis" shows a net *loss* of 7,000 payrolls. The unconverted data shows a 103,000 drop

Update to strategic view

US MACRO, US FED: 263,000 net payrolls is a big beat, on top of net upward revisions. The recessionary February payroll gains have been revised up twice now, but not by much – so it would seem that they mark the bottom in a small "undocumented recession" from Q4-2018 to Q1-2019 from which this morning's numbers suggest we are recovering. This confirms our view that we are replaying the recovery from the "undocumented recession" of Q4-2015 and Q1-2016, which was triggered by all the same factors that triggered the more recent episode. There are contradictions in this morning's numbers just as there were in February, especially the weak "household survey" employment data, and the large drop in labor force participation. Hourly wage growth was tepid and below expectations, and should not impact the Fed's "patience." But if inflation stays low, a consensus will emerge for a rate cut, and the Fed will have no wage argument to use against it.

[Strategy dashboard]

in employment *and* a 387,000 drop in *un*employment. *That means 490,000 persons dropped out of the labor force – and indeed the labor force participation rate fell to 62.8% from 63.0%. We have a hard time believing anything like that actually happened.* That explains the sharp drop in the unemployment rate to 3.58% from 3.81% (see "Data Insights: Jobs" May 3, 2019).

- But in February, when the headline was a dismal 20,000 net payroll gain, the "household survey" on a "payroll basis" showed a gain of 285,000. The unconverted data showed 255,000 persons moving from unemployment to employment. That's a much nicer reason for the unemployment rate to fall – as opposed to people abandoning the workforce – and indeed it did fall in February, by about as much as it fell in April, despite February printing a lousy payrolls number and April printing a great one.
- Average hourly earnings, growing at only 0.22% in April – despite being on top of an 0.04% upward revision to the prior month – were quite tepid. On a year-over-year basis, the 3.2% growth this morning is the second downtick in a row, and came in lower than the consensus expectation for 3.3%.
- Whatever incomprehensible maunderings about the Phillips Curve that Fed chair Jerome Powell may have indulged in, once again, in Wednesday's post-FOMC press conference (it was "quite steep" in the 1960s, don't you know) and whatever he may believe he believes about what drives wage growth (it's "moving up at a rate that is appropriate given inflation and given productivity") – *there is nothing in this morning's numbers in and of themselves that ought to deflect the Fed off its "patient" course one way or the other.*
- *But looking ahead, if inflation stays weak, then we continue to believe that a growing consensus will emerge that the Fed ought to cut rates in order to forestall further weakening, and tepid wage growth like April's won't be an effective counter-argument against that.*

Bottom line

263,000 net payrolls is a big beat, on top of net upward revisions. The recessionary February payroll gains have been revised up twice now, but not by much – so it would seem that they mark the bottom in a small "undocumented recession" from Q4-2018 to Q1-2019 from which this morning's numbers suggest we are recovering. This confirms our view that we are replaying the recovery from the "undocumented recession" of Q4-2015 and Q1-2016, which was triggered by all the same factors that triggered the more recent episode. There are contradictions in this morning's numbers just as there were in February, especially the weak "household survey" employment data, and the large drop in labor force participation. Hourly wage growth was tepid and below expectations, and should not impact the Fed's "patience." But if inflation stays low, a consensus will emerge for a rate cut, and the Fed will have no wage argument to use against it.

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Recommended Reading

Penn & Teller Are Teaching You Magic
UrbanDaddy
May 1, 2019

My Brush With Personal Destruction
Stephen K. Moore
Wall Street Journal
May 3, 2019

The Fed Should Dump Its Interest-Rate Target
Bill Dudley
Bloomberg
April 30, 2019

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