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

TRENDMACRO LIVE!

On the July Jobs Report

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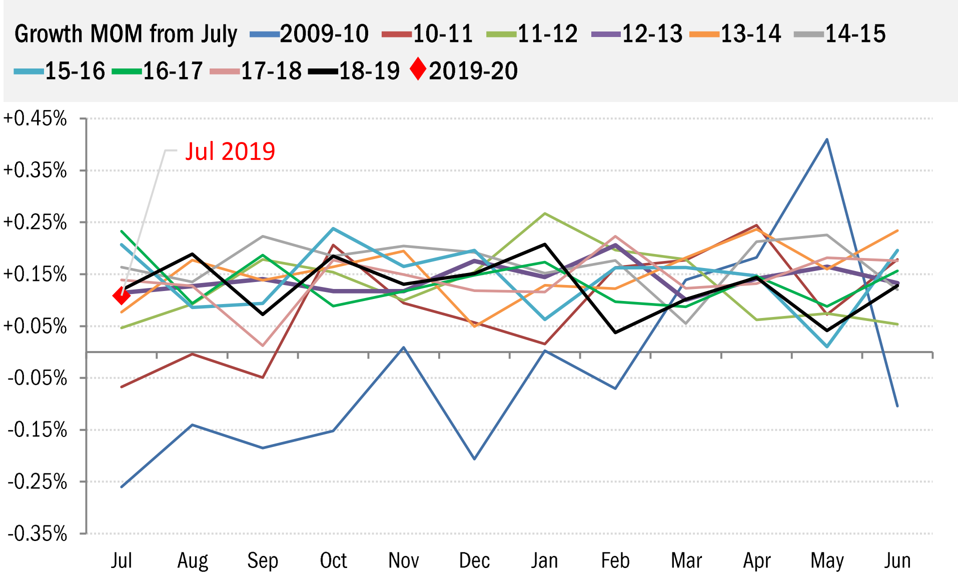
Donald Luskin

An ordinary July, except that it kicks off the eleventh year of the business cycle expansion.

This morning's July Employment Situation report kicks off the eleventh year of the present business cycle expansion with everything seemingly completely normal. With a headline of 164,000 net payrolls, the report perfectly meets consensus expectations for 165,000, in line with other contemporaneous labor market indicators. *But – and there's usually a "but" – the payroll gain was 41,000 weaker than it seems, thanks to downward revisions to the prior two months' data, including 10,000 payrolls removed from an already weak May report. But even adjusted for that, this was a perfectly ordinary middle-of-the pack result for a July, which seems remarkable at this advanced point in the cycle* (please see the chart below).



Source: BLS, TrendMacro calculations

- Average hourly earnings growth at 0.29% was unchanged from last month, which itself was revised higher by 0.07%. *For the Fed's purposes, there's not a whiff of "overheating" here which might call for tightening – but neither is there any overt weakness that would justify easing, especially to those on the FOMC who refuse to accept responsibility for having set policy too tight to begin with* (see "On the July FOMC" July 31, 2019).

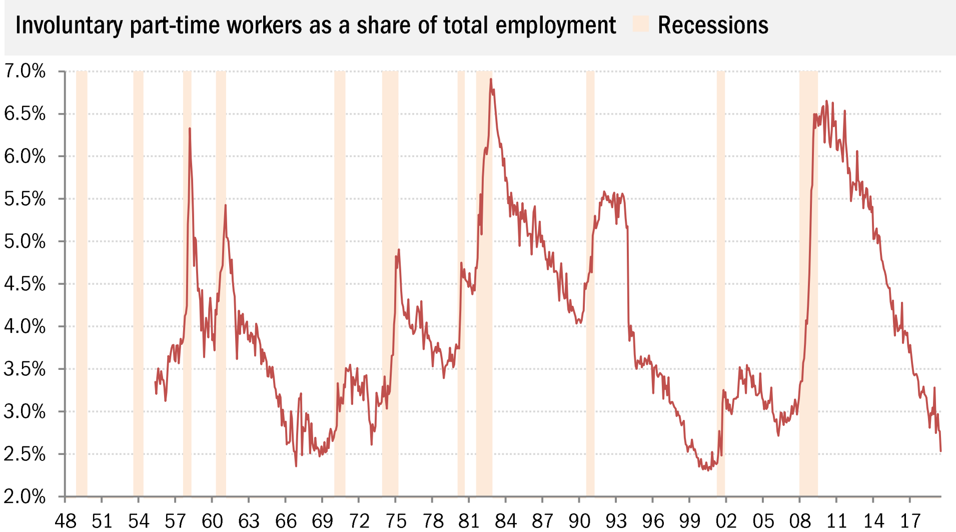
Update to strategic view

US MACRO, US FED: Payrolls met expectations, but that was thanks to substantial downward revisions to the prior two months. But even at that, this was an ordinary July, despite it being the first month in the eleventh year of this business cycle expansion. The unemployment rate ticked up, though the reported rounded number was unchanged, because of labor force growth. The data internals were strong, with long-term unemployment falling sharply, and the share of involuntary part-time workers falling to a new cycle low. Earnings growth was unchanged from last month, and gives no particular ammunition to either hawks or doves on the Fed.

[Strategy dashboard]

- The labor force grew by 370,000, moving the labor force participation rate up to 63%. But thanks to the "younging" of the prime-age population, with the large "baby boom echo" generation still just starting to work, we estimate that there are still 2.8 million persons outside the labor force who could join it, which strongly defeats concerns that the US economy is "running out of workers" (see ["Data Insights: Jobs"]() August 2, 2019).
- That labor force growth drove the unemployment rate up by 0.05%, from 3.66% to 3.71% (it was reported as unchanged at 3.7%, due to rounding). With 370,000 new persons in the labor force, we shouldn't expect every one to find a job immediately.
- In July, unemployed workers *already* in the labor force seem to be the ones who claimed the 288,000 reported new jobs, because long-term unemployment was reported as falling by 255,000, to a new cycle low.
- Similar evidence that the business cycle expansion is reaching down to the lower end of the employment hierarchy, the share of "involuntary part-time workers" – that is, those who would rather have a full-time job, but can't get one – fell to 2.5%, a new cycle low, and better than the lows of the previous business cycle expansion (please see the chart below).

Involuntary part-time workers as a share of total employment



Source: BLS, TrendMacro calculations

- For those who are worried that the US/China trade war is suppressing the manufacturing sector, today's good news is that manufacturing payrolls rose by 16,000 – the third gain in a row, and the fourth gain in five months.

Bottom line

Payrolls met expectations, but that was thanks to substantial downward revisions to the prior two months. But even at that, this was an ordinary July, despite it being the first month in the eleventh year of this business cycle expansion. The unemployment rate ticked up, though the reported rounded number was unchanged, because of labor force growth. The data internals were strong, with long-term unemployment falling sharply, and the share of involuntary part-time workers falling to a new cycle low. Earnings growth was unchanged from last month, and gives no particular ammunition to either hawks or doves on the Fed.