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

TRENDMACRO LIVE!

On the December Jobs Report, and the Triumph of Trickle-Down

Friday, January 10, 2020

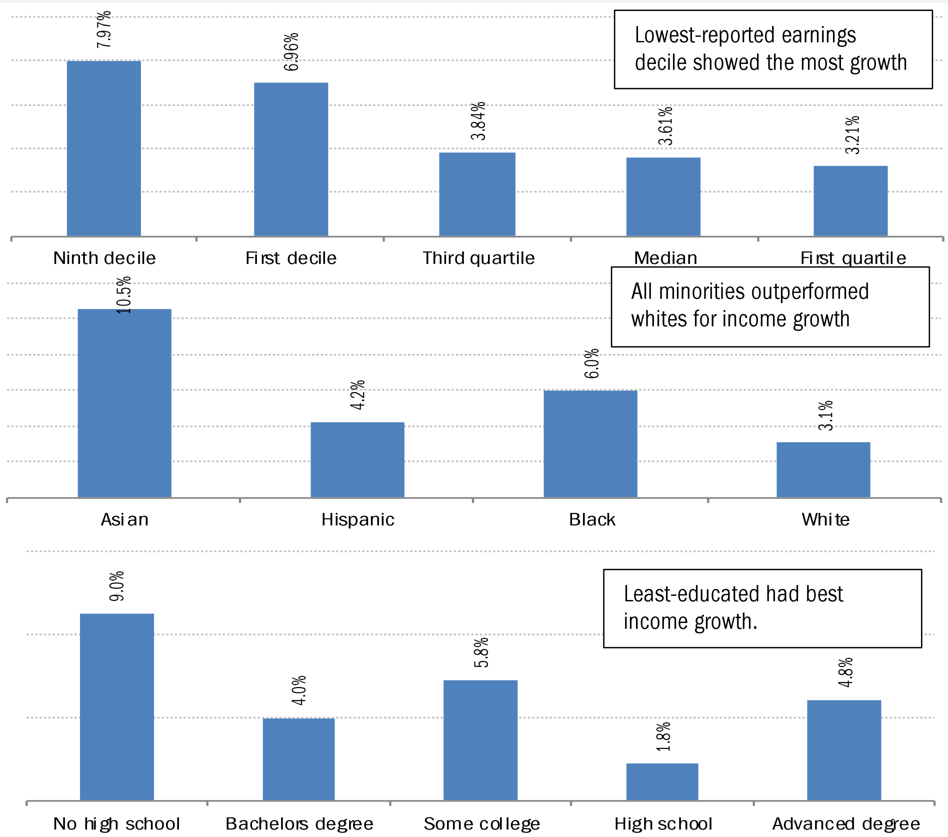
Donald Luskin

A small miss after two big beats. "Fed Listens" has committed the Fed to "hands off" policy.

This morning's December Employment Situation report was a miss, with 145,000 net payrolls gained versus the consensus for 160,000. It was a little more of a miss given downward revisions of 14,000 to the prior two reports. Both those were blockbusters, and we told you they would be revised lower (see "On the November Jobs Report" December, 2019 and "On the October Jobs Report" November 1). Just as those two months were at odds with contemporaneous labor market data, so too was December – but on the downside. Our model predicted 225,000 payrolls.

- Our model's prediction was more in line with employment gains in

Usual weekly earnings, year-over-year change as of Q3-2019



Source: Bureau of Labor Statistics Current Population Survey, TrendMacro calculations

Update to strategic view

US MACRO, US FED: With revisions, the December payroll miss is bigger than it seems. After two blockbuster beats, it was inevitable. It is inconsistent with contemporaneous labor market data, and with the "household survey," both of which showed much greater jobs growth. The "Fed Listens" events have focused on the benefits of persistent low unemployment rates, which have "trickled down" to minorities, the lowest earners, and the least educated. Such communities insist that the Fed not disrupt the present prosperity, and they cannot understand the Fed's mission to produce higher inflation. This supports Powell's new "hands off" doctrine on rate hikes.

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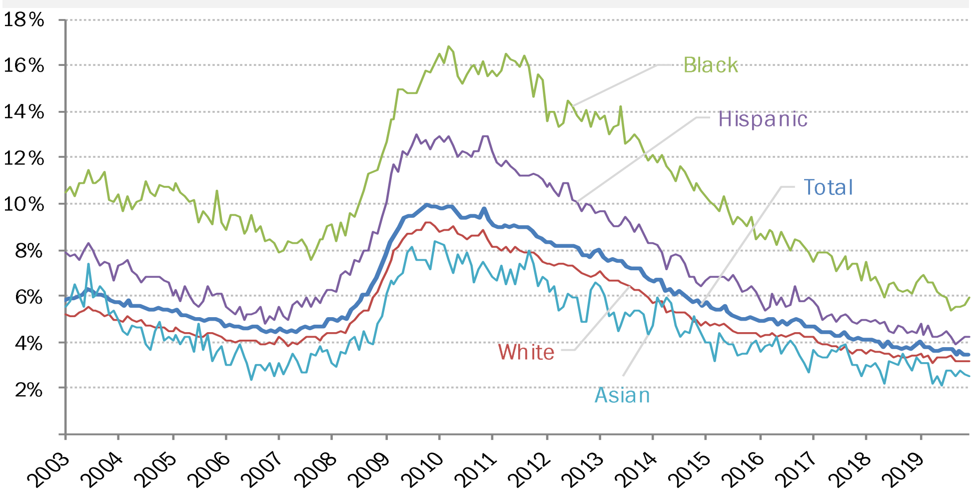
the Bureau of Labor Statistics' "household survey," which showed employment rising by 267,000 jobs, and unemployment falling by 58,000, as 209,000 persons entered the labor force (see "Data Insights: Jobs" January 10, 2020).

- *So we are going to interpret this little miss as just a vibration in funky data, and not of any particular note in terms of our outlook for 2020* (see "2020 Outlook: After a Near-Miss Recession, It's the Election" January 2, 2020) *calling for reflation as the global economy comes out of the near-miss recession of 2019* (see "Video: What you're not hearing about the recession of 2019" December 30, 2019).
- *The only other internal in the report worth noting is the tepid 0.11% month-over-month gain in average hourly earnings – a very dove-friendly number for the Fed, just in case there is anyone there who is still worried about wage-push pressure on inflation*.

Indeed, we think the Fed is beginning to take a very different – and very constructive – view of labor market statistics.

- The Fed has taken note of the benefits for all Americans of today's record-long economic expansion. The overall unemployment rate is the lowest since 1969 – but *unemployment rates for blacks and Hispanics are the lowest in the history of the data* (please see the chart below).

Unemployment rate by race or ethnicity



Source: BLS CPS, TrendMacro calculations

- But it's more than that. Long-lived prosperity is beginning to solve persistent concerns about so-called "income inequality."
- *Over the last year, the greatest income gains have come to the lowest-reported decile of workers. Income gains by all minorities exceeded that of whites. And the greatest gains went to workers without a high school education, and the least gains to those with advanced degrees* (please see the chart on the first page).
- The Fed has had its nose rubbed in that at last year's series of "Fed Listens" events – at which, truth be told, the Fed did more

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

[About us]

talking than listening, but nevertheless *got an earful from communities that are benefiting from the present long-lived prosperity, and don't want to see the Fed make it go away*.

- The minutes of the December FOMC reported on the Fed's takeaways from the "Fed Listens" events (see "Data Insights: FOMC Minutes" January 3, 2020). *The Fed is now on notice that minority communities are aware of how powerful long-lived prosperity can be. Dare we call it "trickle down economics"?*

  "Representatives from underserved communities who participated in the Fed Listens events generally saw the current strong labor market as providing significant benefits to their communities, most notably by creating greater opportunities for individuals who have experienced difficulty finding jobs in the past."

- At the same time, the Fed learned that inflation isn't quite the obsession on the street that it is in the marble halls of the Marriner Eccles Building.

  "Inflation developments elicited fewer comments at these events and were generally seen as posing less of a challenge than labor market conditions."

- To the extent that inflation was seen as a concern by "Fed Listens" participants, their worry is that there might be too much of it – the polar opposite of the concern of every central bank in the world over the last decade that there is too little of it.

  "Event participants were concerned about rising costs of living and generally perceived low inflation as desirable from that perspective."

- Hard to believe that anyone would be surprised by that sentiment, but apparently the Fed was. So…

  "Event participants were asked about monetary policymakers' concerns regarding overall inflation running persistently below 2 percent; they noted that the Federal Reserve could better communicate its reasons for these concerns."

- *In other words, participants simply can't imagine why the hell the Fed thinks inflation should be any higher than it is.*

We think this is very much part of Fed Chair Jerome Powell's thinking now, as expressed at the press conference following the December FOMC (see "On the December FOMC" December 11, 2019). *Powell seems committed to enduring record-low unemployment rates without a knee-jerk pre-emptive tightening for the sake of heading off unwelcome inflation pressures. The new "hands off" doctrine on rate hikes appears to be to wait until he sees the whites of inflation's eyes – actual evidence of inflation pressures that are both persistent and at an unwelcome level.*

Bottom line

With revisions, the December payroll miss is bigger than it seems. After two blockbuster beats, it was inevitable. It is inconsistent with contemporaneous labor market data, and with the “household survey,” both of which showed much greater jobs growth. The “Fed Listens” events have focused on the benefits of persistent low unemployment rates, which have “trickled down” to minorities, the lowest earners, and the least educated. Such communities insist that the Fed not disrupt the present prosperity, and they cannot understand the Fed’s mission to produce higher inflation. This supports Powell’s new “hands off” doctrine on rate hikes.