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

TRENDMACRO LIVE!

On the March Jobs Report, and Being In Recession (Whatever that Means)

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Donald Luskin

This is an utterly unique "shock" recession. If it is brief, the recovery will be strong and swift.

This morning's March Employment Situation report with a contraction of 701,000 payrolls is *the worst since March 2009 – which, by the way, lest we forget, was an economic and market bottom*. This is probably the biggest "miss" in history, with the consensus looking for just 100,000 payroll losses, no doubt relying too much on the fact that the Labor Department's survey was taken three weeks ago, before things got *really* bad. It is actually a little worse than it looks, coming on downward revisions of 59,000 to January's report. *Yet even with that it is a "beat" versus our trusty regression model based on other contemporaneous labor market statistics, which was predicting a million lost payrolls*.

- It speaks volumes that this disaster comes just a single month after the February Employment Situation report – which was a blockbuster that was actually revised up a bit this morning, despite coming in the midst of the eleventh year of the longest-ever business cycle expansion (see "On the February Jobs Report" March 6, 2019). *It's a reminder about how strong the economy was coming into the exogenous shock of the Covid-2019 shutdown. And while we are surely in a "recession" now – whatever that means; the nabobs at the NBER don't define it – the shock element of it gives it a suddenness and rapidity that is totally outside our experience.*
- Our client conversations this week have centered around the challenge of navigating this unknown territory. *The center of the client consensus – at least when weighted for felt intensity – is that the sudden "hard stop" nature of it will make this recession uniquely difficult to recover from*. We'll see, of course, but our intuition is just the opposite. *If the suddenness of this recession's onset can be matched with a brief duration, the recovery should be rapid and robust because the world's stock of human, physical and financial capital will not have had the usual multiple quarters over which to erode and decay*.
- Consider that the bulk of the payroll losses reported today were the 459,000 in the leisure sector – including, obviously, hospitality and lodging, which have been the hardest hit in the global lockdown (see "Data Insights: Jobs" April 3, 2020). It's the lowest-wage sector, exactly where the relief programs enacted by Congress will be more effective at replacing incomes. And it is the most fluid and

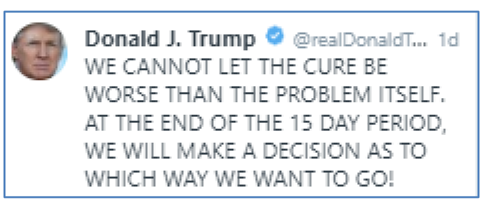
Update to strategic view

US MACRO, US FED: The biggest contraction in payrolls since March 2009, which was an economic and market bottom. Losses were heaviest in the leisure sector, which includes hospitality and lodging. Workers in this sector are the easiest to fire, and the easiest to re-hire. Their generally low wages can be easily replaced by the relief measures enacted last week. This is a recession now, but it is a highly unusual shock-driven one. It will be intense, but we think it will be brief. Its brevity, and the pre-emptive measures against systemic risk taken by the Fed, the Congress and authorities around the world, will likely preserve the stock of human, physical and financial capital necessary for a sharp recovery. That recovery will begin swiftly, as progress against Covid-2019 is becoming increasingly evident world-wide.

[Strategy Dashboard home]

least-skilled employment sector – it's easy to fire, and easy to hire back.

- Remember the very strong consensus after the so-called "Great Recession" of 2008 and 2009. Everyone was relying on the "Zarnowitz Rule" that deep recessions are matched with strong V-shaped recoveries. History ended up turning the Rule on its head – the worst recession ever was followed by the most sluggish recovery ever. We know now that's because the "Great Recession" was not a recession at all, but rather a financial crisis, the severity and duration of which did lasting damage to the capital stock. It was difficult to recover from – for a long time, it was the ultimate "jobless recovery," remember? But as we have seen, the recovery was ultimately extremely lengthy and durable. It's been so durable that it took an exogenous bolt from the blue like the Covid-2019 crisis to knock it out.
- *We think the present moment isn't a recession any more than the Global Financial Crisis of 2008-2009 was. What shall we call it, a "shock"? An "emergency"?*
- What's the model for it? The 1958 recession was associated with the global H2N2 "Asian flu" pandemic, but there was nothing remotely like the prophylactic lockdowns we are seeing today. The much worse H3N2 "Hong Kong flu" pandemic of 1968 wasn't associated with a recession at all. Whether a pandemic is involved or not, can anyone think of a recession this much driven by a global shock-event?
- At this point we know the spatial dimension of the present shock. We know what's getting locked down and what isn't. We know where the deadweight losses are, and where demand can be rechanneled. *What we don't know is the time dimension – when can the world get back to work?*
- *It seems that decision is under the control of medical "experts" for whom minimizing deaths is a monomaniacal focus justifying limitless restrictions on economic activity with little or no cost-benefit analysis* (see "Video: What you're not hearing about the Covid-2019 panic" March 25, 2020). *If you'll forgive us for concentrating on the dark side of incentives facing politicians around the world, we think many find common cause with the "experts," seeing ways to expand their own powers. President Donald J. Trump experimented last week with the opposite message, that "the cure is worse than the problem itself." He got trampled in the safety-first stampede, but in that single week the S&P 500 bottomed and then experienced a 20%-plus bull market.*



- We don't know when the "experts" will relent. But that said, we think the very intensity of the lockdown they are insisting on, all else equal, argues for a swift resolution (see "Powell Flails Again: Wuhan Flu Over the Cuckoo's Nest" March 15, 2020). Whether or not we should attribute success against the virus to these measures we simply will never know, but *by the global numbers success is indeed at hand* (see "Video: What you're not hearing

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trendmacro.com

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Donald Luskin
Dallas TX
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]

about progress against Covid-2019" April 2, 2020).

- At the same time, the relief measures put in place by global authorities – especially the Fed's many programs designed to stave off the specter of systemic financial stress – have been as sudden and swift as the crisis itself (see "On the Fed's Massive Intervention" March 23, 2020). By contrast, in the financial crisis of 2008-2009, all the interventions were reactive and after-the-fact, like spraying foam on the runway *after* the plane has crashed. *This time these measures are all pre-emptive, being snapped into place before very much as actually gone wrong.*
- This won't be the last bad jobs report. And there will be other standard macro data that's going to look just awful. That said, you have to hand it to those US service-sector purchasing managers who, apparently, while working from home stood against the wind and actually reported expected growth this morning (see "Data Insights: Global PMI" April 3, 2020).
- *We think the course of the pandemic will look and feel very different in a couple of weeks*. The various "curves" are mostly bending in the right respective directions, especially the seemingly most intransigent ones like Italy and Iran (see "Data Insights: Covid-2019 Monitor" April 3, 2020). *By the end of the month, people in the United States are going to have to acknowledge the self-evident good news. This will unleash a demand-effect on government officials to let the country get back to work. This will shift the balance of political advantage from those urging safety at all costs, to those pointing the way to economic revitalization.*
- *As an official matter, this "recession" may last just a single quarter. We're placing our bets against the consensus. We think the V-shaped recovery from it will be commensurably speedy.*

Bottom line

The biggest contraction in payrolls since March 2009, which was an economic and market bottom. Losses were heaviest in the leisure sector, which includes hospitality and lodging. Workers in this sector are the easiest to fire, and the easiest to re-hire. Their generally low wages can be easily replaced by the relief measures enacted last week. This is a recession now, but it is a highly unusual shock-driven one. It will be intense, but we think it will be brief. Its brevity, and the pre-emptive measures against systemic risk taken by the Fed, the Congress and authorities around the world, will likely preserve the stock of human, physical and financial capital necessary for a sharp recovery. That recovery will begin swiftly, as progress against Covid-2019 is becoming increasingly evident world-wide.