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TRENDMACRO LIVE!

On the February Jobs Report

Friday, March 6, 2020

Donald Luskin

The US economy comes into the virus crisis strong – but the Fed will still cut another 50 bp.

Somehow this morning's February Employment Situation report feels so irrelevant... so this will be only a minimal note. But it's not irrelevant, even though it describes a world when Covid-2019 was only just beginning to make the jump from China to the rest of the world. *Just as the coronavirus is more dangerous to patients who have already been weakened by something else, its economic impacts will be harder to bear in a weak economy, and easier to bear in a strong one. This jobs report demonstrates that the US economy is entering this dangerous period very strong*. It proves what we said at the beginning of the year, that the US economy is sling-shotting out of a near-miss recession in 2019, for the third time in this longest-ever business cycle expansion (see "2020 Outlook: After a Near-Miss Recession, It's the Election" January 2, 2020).

- February's 273,000 net payroll gains trounced the consensus for 175,000. The beat is all the more impressive considering that the bar was raised by upward revisions of 48,000 and 37,000 for January and December. For that matter, it also demonstrates that the economy was significantly stronger than believed in those months (see "Data Insights: Jobs" March 6, 2020).
- Average hourly earnings grew 0.32% in February, at the high end of the range, but nothing that would get the Fed's attention – if there is anyone there who still thinks about wage-push inflation. On a year-on-year basis, at 3.0% it continued its gentle downward drift.
- For better or worse now, the Fed is very much thinking of other things. Since the horribly bungled policy adjustment on Tuesday (see "Powell Not to the Rescue" March 4, 2020) – which gave the market early the 50 bp cut it had been expecting for next week's FOMC – the market has doubled down its demands, expecting another 50 bp or more. It wouldn't be the wrong thing for the Fed to do anyway – but for now, Mr. Market gets what Mr. Market wants.

Update to strategic view

US MACRO, US FED: A massive beat, on top of big upward revisions. It's relevant, because just as Covid-2019 is more lethal for weak patients, its economic effects will be worse for weak economies – and this shows that the US economy is a very strong one. There's nothing here that the Fed will even consider at next week's FOMC, as it likely gives in to the market's entirely understandable demand for another 50 bp rate cut, having bungled this week's.

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Bottom line

A massive beat, on top of big upward revisions. It's relevant, because just as Covid-2019 is more lethal for weak patients, its economic effects will be worse for weak economies – and this shows that the US economy is a very strong one. There's nothing here that the Fed will even consider at next week's FOMC, as it likely gives in to the market's entirely understandable demand for another 50 bp rate cut, having bungled this week's.