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TRENDMACRO LIVE!

On the December Jobs Report

Friday, January 8, 2021

Donald Luskin

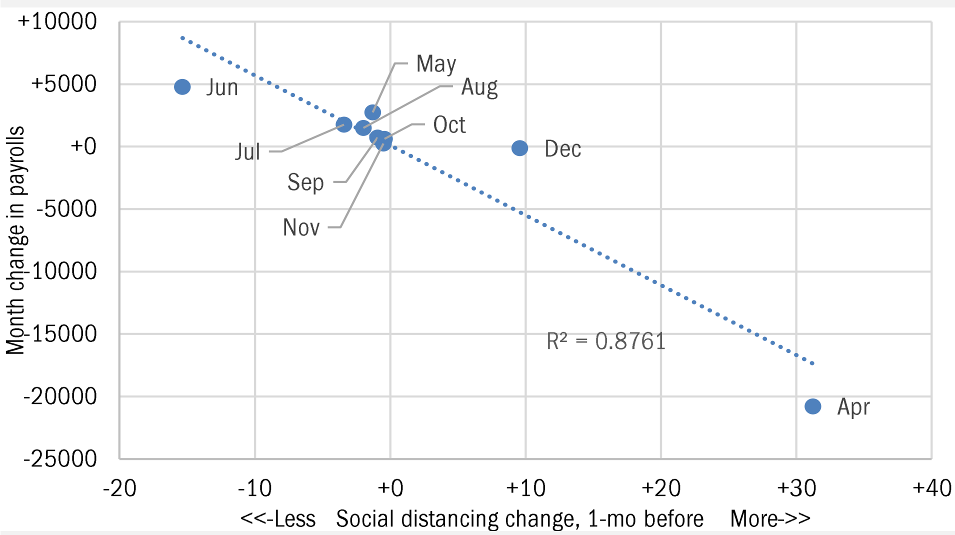
A reaction to more social distancing, not a sign of a double-dip. That won't stop the calls for more stimulus.

This morning's December Employment Situation report with a 140,000 contraction in payrolls missed the consensus for a gain of 50,000. That consensus was already so low that it doesn't cheer one up much to note that the miss was mostly due to upward revisions to the prior two months of 135,000. Our model based on contemporaneous labor market statistics was expecting a contraction of from 7,000 to 21,000 payrolls.

The 140,000 contraction is more than entirely explained by losses of 498,000 in the leisure sector, most of which is losses of 372,000 in "food services and drinking places" – the low-wage entry-level employment category that is the first to be punished by government officials ordering lockdowns in a vain attempt to control the spread of Covid-19 (see "The Failed Experiment of Covid Lockdowns" September 1, 2020).

- From March, when the Covid-19 crisis began, monthly changes in payrolls have been highly correlated (r-squared 88) to the prior month's change in social distancing (please see the chart below). Social distancing increased in November, following an unbroken

Payrolls versus Social Distancing Index



Source: BLS, University of Maryland Transportation Institute, TrendMacro calculations

Update to strategic view

US MACRO: December's 140,000 payroll contraction is more than explained by losses of 498,000 in the leisure sector, dominated by 372,000 in the lockdown-sensitive food services and drinking places category. Since the recession trough in April, payroll gains and losses have been highly correlated to changes in social distancing – which in December logged its first increase since March. This is not a harbinger of a double-dip recession. It is not unusual to have payroll losses in a recovery, and this one far out-performs the post-2009 recovery in that regard. Other mid-frequency data such as PMI's and high-frequency data such as holiday restaurant seatings are making new recovery highs. This will trigger calls for more "stimulus," before the most recent round of checks even arrives in mailboxes. We think it's not likely, and we know it's not necessary. We're already primed for a boom in 2021. $2000 checks for everybody would make it a bubble.

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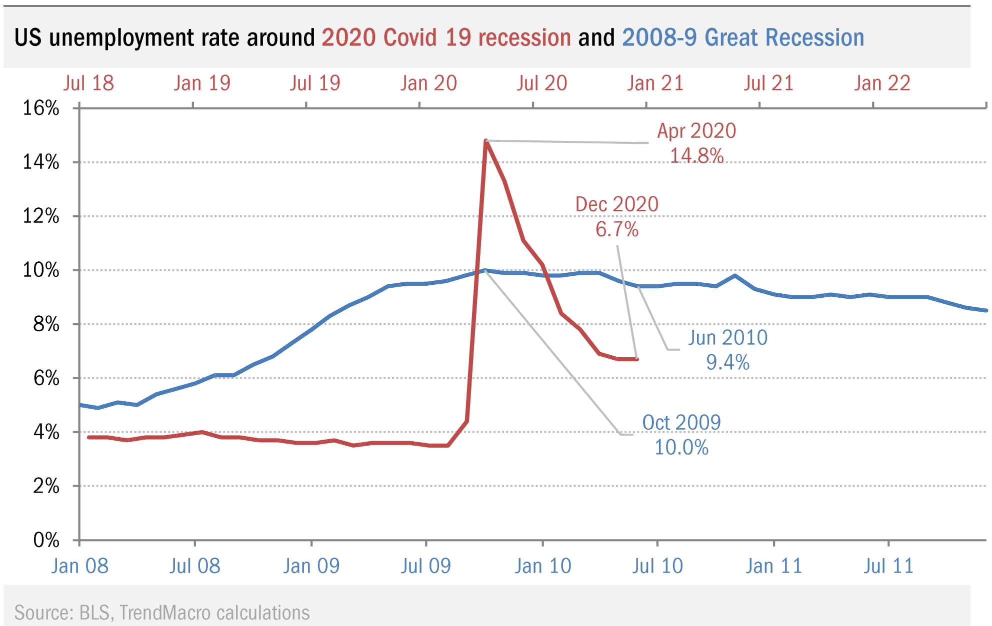
string of decreases after April.

- *<u>We don't see this payroll contraction as a harbinger of a double-dip</u>* recession, unless social distancing – either by mandate or self-quarantining out of prudence or fear – increases from here. And we don't expect that, especially as vaccines are being distributed at a rate of 4.1 million doses per day (see "Data Insights: Covid-2019 Monitor" January 8, 2020).
- *<u>Also, the huge contraction in leisure sector payrolls masks better news in other employment sectors.</u>* It's notable that, overall, the probability of an unemployed person finding a job actually up-ticked in December, from 25% to 27%.
- *<u>It is typical in recoveries from recession for there to be months with payroll contractions</u>*. In the recovery from the June 2009 recession trough, there were ten payroll contractions in the first 15 months. The unemployment rate was still 9.4% eight months following the 10% peak in October 2009 – in the present recovery, after eight months, the unemployment rate is 6.7%, down from 14.8% (please see the chart below).
- And it's not like other macro data is falling apart. Far from it. Just



look at this week's purchasing managers indices – US manufacturing at 60.7 is the best since the recession trough, and services at 57.2 is the second best (see "Data Insights: Global PMI" January 7, 2020). The employment component of the services PMI was weak at 48.2, but even that is 4th best in the eight months since the recession trough. For manufacturing, it was second best.

- And late-December high-frequency data is encouraging, especially a surge in restaurant seatings to new recovery highs over the holidays, but too late to be picked up in the jobs numbers (see "Data Insights: High-Frequency Post-Virus US Recovery Monitor" January 7, 2021).
- Today's payroll bust will surely trigger demands for more "stimulus." President-elect Joseph R. Biden promised Georgia voters $2000 checks if they flipped Senate control to the Democrats, which they

did (see “On Georgia” January 6, 2021). And never mind that it was President Donald J. Trump’s idea.

- We continue to be more skeptical than the consensus that further stimulus will in fact be forthcoming, and we certainly don’t think it’s necessary (see “Do We Need More Stimulus?” December 14, 2020). If today’s payroll news helps it along and it actually happens, it will be an absurd amount of new frosting on an already heavily frosted cake. It will take the stock of savings from already record levels, which we believe will fuel a boom in 2021 (see “A Boom in 2021… But What Could Make It Bust?” January 4, 2021), to some new stratospheric height for which we’ll have to come up with a word stronger than “boom.” “Bubble” comes to mind.

Bottom line

December’s 140,000 payroll contraction is more than explained by losses of 498,000 in the leisure sector, dominated by 372,000 in the lockdown-sensitive food services and drinking places category. Since the recession trough in April, payroll gains and losses have been highly correlated to changes in social distancing – which in December logged its first increase since March. This is not a harbinger of a double-dip recession. It is not unusual to have payroll losses in a recovery, and this one far out-performs the post-2009 recovery in that regard. Other mid-frequency data such as PMI’s and high-frequency data such as holiday restaurant seatings are making new recovery highs. This will trigger calls for more “stimulus,” before the most recent round of checks even arrives in mailboxes. We think it’s not likely, and we know it’s not necessary. We’re already primed for a boom in 2021. $2000 checks for everybody would make it a bubble.