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TRENDMACRO LIVE!

On the January Jobs Report

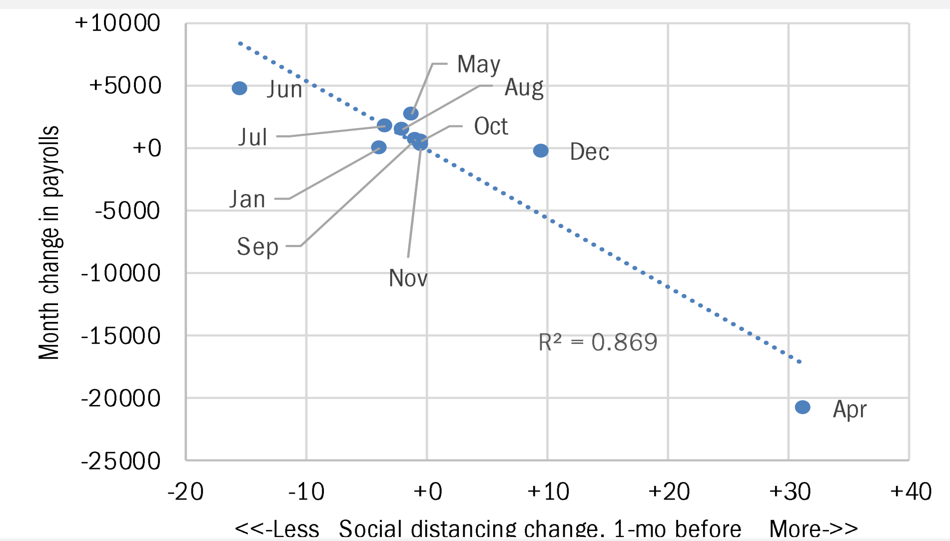
Friday, February 5, 2021
Donald Luskin

You want more payrolls? Forget "stimulus." End the lockdowns.

This morning's January Employment Situation report with 49,000 net payrolls gained was a miss versus consensus expectations for 105,000. It's worse than it looks, with the bar having been lowered by net downward revisions of 42,000 to the prior two months reports. The consensus had crept up over the week as better-than-expected results came in from other contemporaneous labor market indicators. Based on those, our model predicted about 190,000 payrolls – better, but still not great. Frankly, we trust our model more than the Bureau of Labor Statistics.

- *As of this writing, markets don't seem too worried about it. Surely the explanation is that a poor payroll headline hits a sweet-spot in which it can be used to promote further government "stimulus" spending -- while at the same time, data that's a little more under the radar (but of which markets are entirely aware, even if politicians are not) indicate that the economy is forging ahead, and isn't in any imminent danger* (see for example "Data Insights: Global PMI" February 3, 2020 and "Data Insights: High-Frequency Post-Virus US Recovery Monitor" February 4, 2021).
- What's driving employment and everything else in the economy is the tightening or relaxation of Covid-19 lockdowns. *If we want*

Payrolls versus Social Distancing Index



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

Update to strategic view

US MACRO: A miss versus consensus, made worse by downward revisions to prior months. Other contemporaneous labor market data looks better, but not by much. This sluggish payroll number will be used to promote "stimulus," even as other less highly publicized data series show a very robust January. Payroll gains are highly correlated to relaxing lockdowns. Low-wage lockdown-sensitive sectors did the worst, while telework-capable sectors grew. Telework-capable workers can be permanently more productive. But 5.7% of the population cannot work due to coronavirus business closures. The only way to grow payrolls is to relax lockdowns, and there is no empirical evidence that they have had any public health benefit in the "dark winter." Vaccine distribution is on-plan, and more are on the way. We continue to expect a V-shaped recovery complete by Q1, and a boom in the global economy in 2021.

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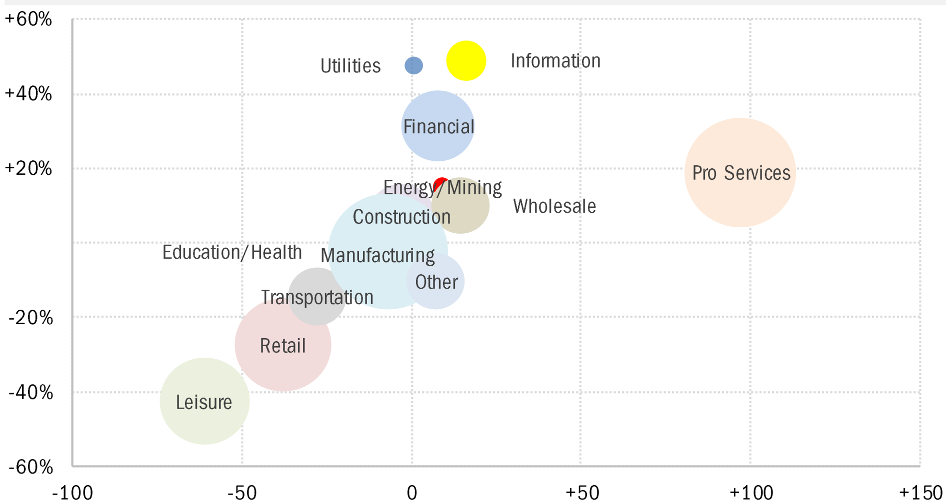
payroll gains, then end the lockdowns. That could be done with the stroke of a pen and at no cost. *That* would be stimulus. Sending people more money without further relaxing the lockdowns is just old-fashioned "relief."

- Payroll changes are very highly correlated to prior-month changes in the University of Maryland's Social Distancing Index (please see the chart on the previous page, and "On the December Jobs Report" January 8, 2021). January's tepid payroll gains are in line with the slight relaxation of lockdowns in December versus their November highs. *If the lockdowns had relaxed more in December, we'd have had more jobs in January. It's just that simple*.
- We can see it in the sector distribution payroll gains and losses by sector (please see the chart below, and "Data Insights: Jobs" February 5, 2021). The losses were in lock-down sensitive in-person sectors such as leisure, retail and transportation. Gains were in sectors where you can telework, notably business and professional services.

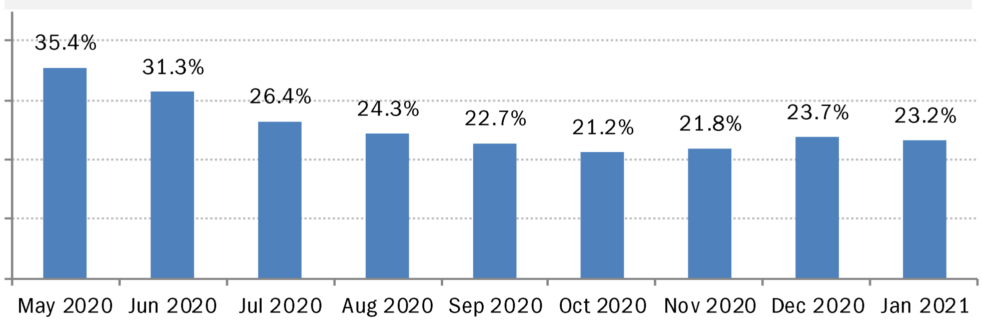
Payroll change by sector (thousands, horizontal) Hourly wages versus average (vertical)



Source: BLS, TrendMacro calculations

- The BLS now publishes several new data series that delve deeper inside this dynamic (please see the chart below, and "Data Insights: Jobs" February 5, 2021). The share of employed persons teleworking due to coronavirus, at 23.2%, fell slightly – but it's

Share employed teleworking due to coronavirus, last 4 weeks

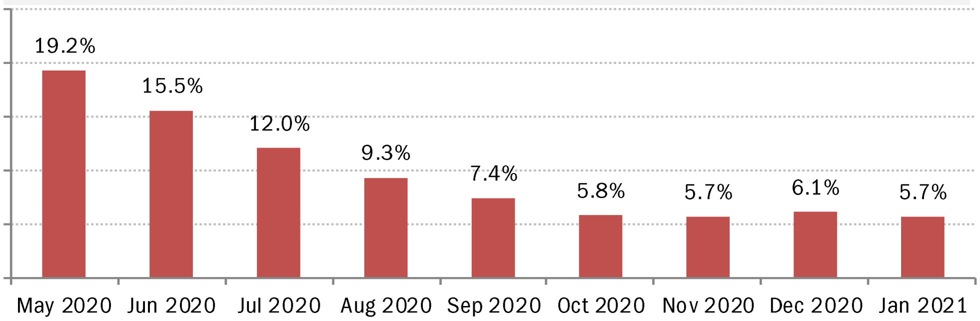


Source: BLS, TrendMacro calculations

broadly unchanged over the last five months. We don't doubt that as lockdowns relax and workplaces re-open, this will fall. _But it will probably never fall all the way back to zero, nor should it. There are some workers who are more productive at home – because they are introverts who prefer that, or simply because it is less costly for employers to not office them._

- These people have been busy beavers. That's why hours worked grew more than 24 times as much as payrolls did.
- But not everyone is so luckily situated. In January, 5.7% of the population – the *population*, not the labor force – was unable to work due to coronavirus-related business closures (please see the chart below). That's a small improvement from 6.1% in December. But it's not enough to produce the strong payroll gains we saw in the summer when this percentage fell dramatically. These are the lower-wage non-professional entry-level tiers of the workforce who cannot do their work remotely – and they make up the bulk of workers.

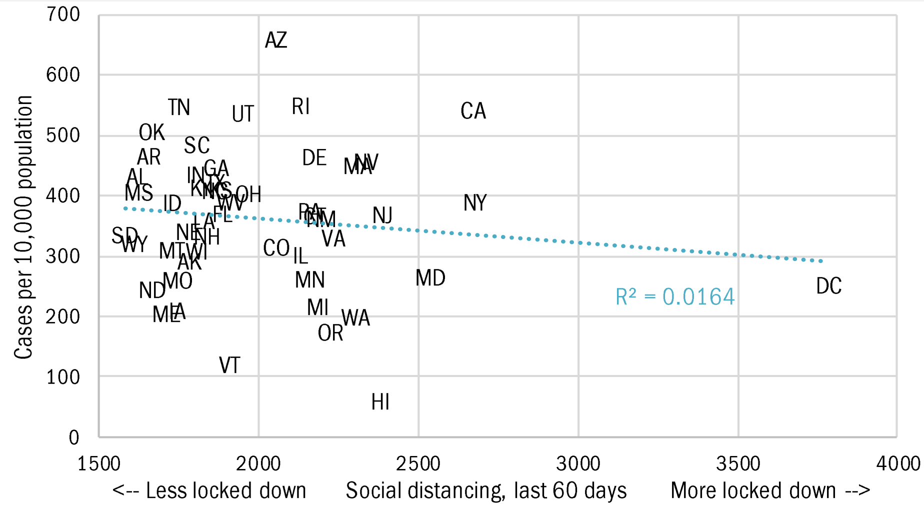
Share of population unable to work due to business closures due to coronavirus, last 4 weeks



Source: BLS, TrendMacro calculations

- _The correct value for this data series is zero – the goal is no business closures due to coronavirus._
- _We can get there over time by eliminating the coronavirus. We can get there immediately by eliminating the lockdowns._
- Is this a cruel prescription that overlooks the public health benefits of lockdowns? No. This is settled science.
- There is still little evidence that lockdowns are effective at containing the spread of infection (we first pointed this out as early as April in a controversial but prescient video, see "Video: What you're not hearing about bringing the economy out of lockdown" April 27, 2020). The evidence we adduced then has only become stronger over the so-called "dark winter" of Covid-19, as cases and fatalities have risen to new heights in the US and worldwide. Over the last 69 days, there is almost no correlation (R-squared near zero – please see the chart on the following page) between the number of new Covid-19 cases and the level of social distancing, across in the 50 states and the District of Columbia. _There was no public health differential benefit between states that have experienced strong social distancing, whether by mandate or by_

Social distancing versus Covid-19 case growth



Source: [Covid Tracking](), [University of Maryland](), TrendMacro calculations

self-discipline. So if there is no benefit, why bear the costs?

- When we say this is settled science, it's because the same analytical technique has been employed, with the same results across countries rather than US states, in two separate papers published in peer-reviewed medical journals – and the results are the same.
- We continue to expect a V-shaped recovery to be completed this quarter (see "Video: What you're not hearing about the third wave of Covid-19 and the V-shaped recovery" December 3, 2020) and for 2021 to be a boom year for the global economy (see "A Boom in 2021… But What Could Make It Bust?" January 4, 2021). Lockdowns will end – both because we have learned they are ineffective, and because the rapid dissemination of vaccines will make the population effectively invulnerable. So far in the United States, more than 47 million doses of two vaccines have been distributed (see "Data Insights: Daily Covid-19 Monitor" February 5, 2021), almost precisely on-plan (yes, there is a plan). If this trajectory were to continue, it would take another year-and-a-half to give everyone in the US two shots. But production will ramp up, and at least two more vaccines are in the pipeline – one from Johnson & Johnson, who filed for Emergency Use Authorization yesterday, requires only a single dose.

Bottom line

A miss versus consensus, made worse by downward revisions to prior months. Other contemporaneous labor market data looks better, but not by much. This sluggish payroll number will be used to promote "stimulus," even as other less highly publicized data series show a very robust January. Payroll gains are highly correlated to relaxing lockdowns. Low-wage lockdown-sensitive sectors did the worst, while telework-capable sectors grew. Telework-capable workers can be permanently more productive. But 5.7% of the population cannot work due to coronavirus business closures. The only way to grow payrolls is to relax lockdowns, and there is no empirical evidence that they have had any public health benefit in the “dark winter.” Vaccine distribution is on-plan, and more are on the way. We continue to expect a V-shaped recovery complete by Q1, and a boom in the global economy in 2021.