

TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 2, 2021

Donald Luskin

It's so simple: reopen the economy. Looking ahead, the latest stimulus may hurt jobs growth.

We don't always take victory laps (we don't always deserve to). But we can't resist quoting ourselves at last month's February payroll report: "We expect March payrolls to be a blowout" (see "On the February Jobs Report" March 5, 2021).

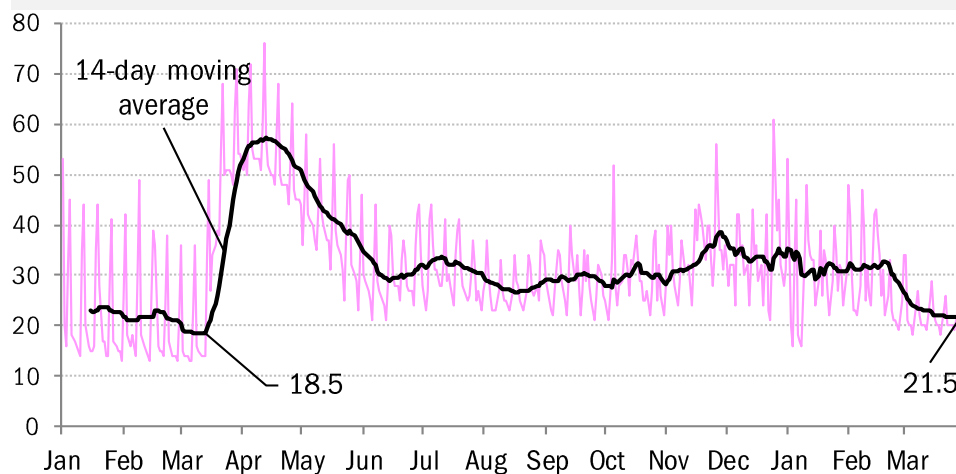
- Indeed. This morning's March Employment Situation report with 916,000 net payrolls gained – against an already strong consensus for 660,000 – was a blowout and a half. It's all the more awesome because it had to jump the higher bar set by upward revisions to the prior two months totaling 156,000 payrolls. If it hadn't been for that, this morning's payrolls would have been over 1.1 million.
- The "household survey" was just a boom, not a boom and a half, with a jump of 609,000 new employed. More than half the newly employed came from outside the labor force, which grew by 347,000. That welcome expansion of the labor force explains why the unemployment rate only fell to 6.05% from 6.23%.
- It's not hard to understand. The economy is now more opened-up than at any point since the onset of the pandemic depression, with the Social Distancing Index (a measure of immobility of individuals) back to pre-pandemic levels seen in the winter of 2019, and only a little way from year-ago spring (please see the chart below).

Update to strategic view

US MACRO: A massive beat – 916,000 net payrolls versus an already strong consensus for 660,000. It's all the more impressive in light of upward revisions of 156,000 over the prior two months. We told you this was coming, as the Social Distancing Index makes new lows, hitting winter 2020 pre-pandemic levels, and approaching the even lower spring levels. There's plenty of scope for more progress as the economy continues to reopen. 11.4 million still can't work due to pandemic-related business closures, and 3.7 million are outside the labor force due to Covid-19. The latest stimulus checks arrived after the BLS survey week, and to some extent they may have the perverse effect of temporarily lowering payroll growth as some service workers quit for a time to consume them in the form of leisure.

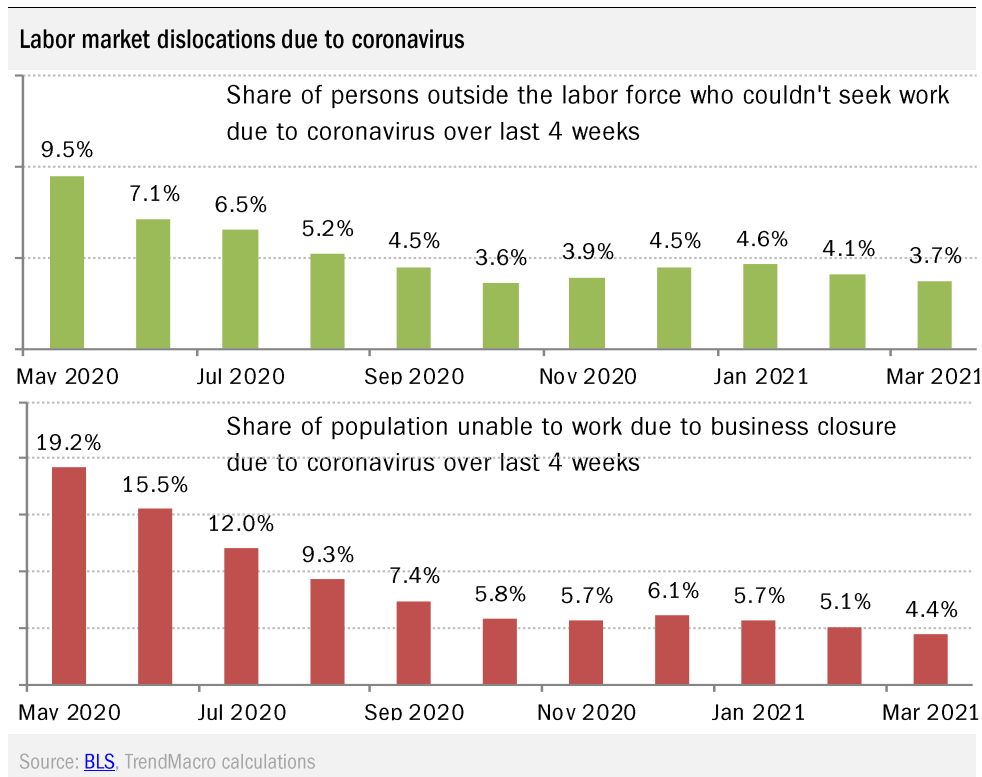
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Social Distancing Index based on cell-phone mobility (as of March 28)



Source: [University of Maryland Transportation Institute](#), TrendMacro calculations

- As has become usual, the largest gain in payrolls in March was the reopening-sensitive Leisure sector, with 280,000 (see [“Data Insights: Jobs”](#) April 2, 2021). But all sectors saw gains, with the exception of Information, which lost 2,000.



Both the progress and the remaining potential are crystal clear in the [new data series from the Bureau of Labor Statistics](#) tracking the impact of coronavirus on employment (please see the charts above).

- 4.4% of the population above age 16 still can't work due to pandemic-related business closures. That's the lowest share since the onset of the pandemic, but it's nevertheless 11.4 million people.
- 3.7% of persons outside the labor force can't even seek work due to Covid-19, either because they are suffering from it personally or in self-quarantine because of risk to family members. That almost ties the low set in October after the summer "sun belt wave." But it's nevertheless 3.7 million people. The explains almost all the 3.9 million person contraction in the labor force during the pandemic. *It's not that they don't want to work.*

We are assigning credit for all the good news to the reopening of the economy. *How much of that, in turn, is due to the various relief and stimulus efforts mounted over the last year?* While we are naturally cautious of large government interventions (correctly so: the economically devastating lockdowns are themselves government interventions) we have based our longstanding forecasts for swift recovery, indeed our March 23, 2020 bottom call, on such interventions (see, first and among many, [“On the Fed's Massive Intervention”](#) March 23, 2020). Yet we believe we are now long past the point where such things help more than they hurt (see,

among others, [“Do We Need More Stimulus?”](#) December 14, 2020).

- Considering only pandemic unemployment benefits, in aggregate those who were unemployed in 2020 received 25% more than their prior wages, benefits and business income while not working. Those who continued working saw no gains at all (see [“Video: What you're not hearing about the coming battle for post-pandemic tax hikes”](#) March 29, 2021 and [“Corporate Covid ‘Windfalls’ Are a Myth”](#) April 1, 2021).
- Now add stimulus payments – we’re in the third round now, even with GDP within spitting distance of its pre-pandemic levels – and it’s a lot more than just a Republican talking point to say people are being paid more not to work than to work. It’s just a fact.
- May we share something that is admittedly just an anecdote? We find it revelatory and believe it generalizes.
- Last weekend we had breakfast at a strip-mall coffee shop in McKinney, Texas, a community about a half hour north of our home in Dallas. It was packed, with dozens of people milling around waiting for tables, about a quarter of whom were not wearing masks.
- The owner acting as *maître d'*, a first-generation Albanian immigrant, for some reason volunteered to us that half his kitchen staff had up and quit over the last couple days as the latest round of stimulus checks hit.
- He said the same workers will be back in a month or so, asking for their jobs, and he’ll have no choice but to rehire them, because help is so hard to find. The harm to him won’t be permanent – but it potentially would be for similarly situated business owners hanging on for dear life after a year of shut-downs, who needed a month of full capacity utilization now just to survive.
- In most of our client conversations, the big economic risk factors arising from so much stimulus are thought to be the accumulation of unsustainable levels of federal debt, and possible inflationary overheating of the economy. But this story shows another risk – *barriers to swift reopening of the small businesses all across America that have been the epicenter of the pandemic lockdown catastrophe.*
- Furthermore, in the case of the coffee shop workers, we can see that *the stimulus payments aren’t even stimulative because, rather than providing higher income that could lead to higher savings or new spending, they simply substitute for labor income – that is, they are consumed in the form of leisure.*
- It’s always risky to argue from anecdotes or, even granting their validity, to pretend to have any idea to what extent they generalize. Our only point here is that this labor-incentive problem, at least at the margin, is a negative factor that should be weighed against an uncritical belief in “the more stimulus the better.”
- For most workers, the stimulus payments hit after the second week in March during which the BLS conducts its surveys. If there is to be a short-term decrement to payroll gains as the economy continues to struggle to reopen, we’ll see it in next month’s numbers.

Bottom line

A massive beat – 916,000 net payrolls versus an already strong consensus for 660,000. It's all the more impressive in light of upward revisions of 156,000 over the prior two months. We told you this was coming, as the Social Distancing Index makes new lows, hitting winter 2020 pre-pandemic levels, and approaching the even lower spring levels. There's plenty of scope for more progress as the economy continues to reopen. 11.4 million still can't work due to pandemic-related business closures, and 3.7 million are outside the labor force due to Covid-19. The latest stimulus checks arrived after the BLS survey week, and to some extent they may have the perverse effect of temporarily lowering payroll growth as some service workers quit for a time to consume them in the form of leisure. ▶