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TRENDMACRO LIVE!

On the May Jobs Report

Friday, June 4, 2021

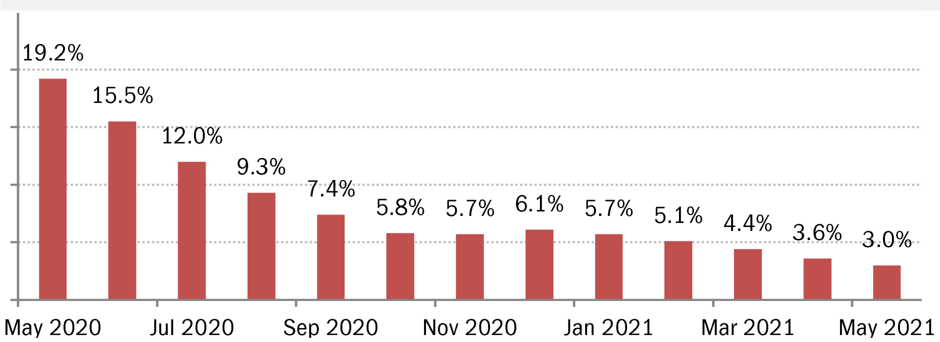
Donald Luskin

The good news for next month: 25 states are halting paying more not to work than to work.

This morning's May Employment Situation report *with 559,000 net payrolls gained, was a miss versus consensus expectations for 675,000.* Some of that is explained by net upward revisions of 27,000 to the prior two months. It's even further below our model estimate of 730,000 based on contemporaneous labor market indicators. It's not as bad a number, nor as bad a miss, but this is basically a replay of last month's disastrous jobs report (see "On the April Jobs Report" May 7, 2021) which, it seems, the Bureau of Labor statistics is basically letting stand. April's mega-miss of 284,000 payrolls was only upwardly revised by 17,000.

- The unemployment rate fell to a new post-pandemic low of 5.79%, but this is only because the labor force shrunk by 53,000 workers, more than all of whom were unemployed.
- This happened despite the fact that the share of the population unable to work due to pandemic-related business closures fell month-over-month to 3.0% from 3.6% (please see the chart below). *That's 1.4 million persons this month who could now come to work this month – yet the labor force shrank and only 559,000 payrolls were gained. This is a replay of what happened last month when enhanced unemployment benefits kicked back in – simply, we are paying low-wage earners more not to work than to work*.
- *You can see it in the 0.50% jump in average hourly earnings in a single month. That's 6.2% at an annual rate. That is the average pay-hike across the entire employed labor force, so the premia being paid to the few newly hired, mostly low-wage leisure sector*

Share of population unable to work due to business closure due to coronavirus



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO: More payrolls than April, but another big miss. Tiny upward revisions to April and March explain little of it. The unemployment rate fell because the labor force shrank despite a booming re-opening. 1.4 million fewer workers this month reported being unable to work due to pandemic-related business closures, yet payrolls grew by less than half that. Average hourly wages moved up at an annual rate of over 6% across the entire employed labor force, implying enormous premiums to new workers primarily in low-wage sectors. 25 governors have opted their states out of the enhanced unemployment benefits programs that are paying people more not to work than to work, and holding back labor market recovery. This will start taking effect this month.

[Strategy Dashboard home]

workers, must be truly enormous.

- Sorry to have to drag politics into this – but unemployment benefits arise in a political process so we have no choice. Over the last month, all but two Republican governors have opted their states out of the enhanced benefits program, citing it as a barrier to economic recovery. The two remaining are the GOP governors of deep-blue states Massachusetts and Vermont – the GOP governor of blue Maryland got on board this week. Not a single state with a Democratic governor has taken this step.
- *The opt-outs across 25 states will start to take effect in June, so we expect future jobs reports will be more robust than this month's, or April's. As current legislation stands, the enhanced benefits will run out for all states on September 6 – which appropriately enough, is Labor Day.*
- This political pattern across states matches the patchwork of policies for releasing their respective economies from pandemic restrictions, and it argues for seeing two month's of disappointing jobs reports as something other than a sign that the booming economic recovery is faltering.
- *It implies that the economic boom that is sweeping across re-opening America will not only be uneven and slower than it might have been, but longer-lasting and back-loaded. As the most laggard states finally open up, not only will they belatedly make more robust individual economic contributions, but they will also be available for synergies that can only take place when our entire complex and inter-linked economy is operating simultaneously.*

Bottom line.

More payrolls than April, but another big miss. Tiny upward revisions to April and March explain little of it. The unemployment rate fell because the labor force shrank despite a booming re-opening. 1.4 million fewer workers this month reported being unable to work due to pandemic-related business closures, yet payrolls grew by less than half that. Average hourly wages moved up at an annual rate of over 6% across the entire employed labor force, implying enormous premiums to new workers primarily in low-wage sectors. 25 governors have opted their states out of the enhanced unemployment benefits programs that are paying people more not to work than to work, and holding back labor market recovery. This will start taking effect this month.

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