

MACROCOSM

Let It Go, Let It Rip

Wednesday, August 4, 2021

Donald Luskin

There's downside risk to Friday's payrolls. But Delta won't derail a productivity-led boom.

The consensus expectation for 875,000 payrolls in Friday's job report is at risk, with ADP reporting only 330,000 this morning when 690,000 had been expected. This morning's services PMI report was a big beat at 64.1, indeed an all-time record – but the employment component fell month-over-month (see ["Data Insights: Global PMI"](#) August 4 2021). Our model based on these and other contemporaneous labor market indicators is calling for only from 282,000 to 294,000 payrolls Friday.

- If our model is anything close to right, then so much for [Federal Reserve Board Governor Christopher Waller's warning yesterday](#) that an asset purchase tapering announcement could come as soon as September if there were two more strong jobs reports.
- A disappointing jobs number would fit in with the reality that the re-opening of America, as proxied by the TrendMacro Social Distancing Index (which uses cell-phone tracking data to measure mobility) stopped improving in mid-April, hanging in a range still well above its pre-pandemic norms (please see the chart below).
- The great improvement in remobilization over February and March, when people were cheered by the widespread availability of vaccines, stopped just when millions of Americans started getting

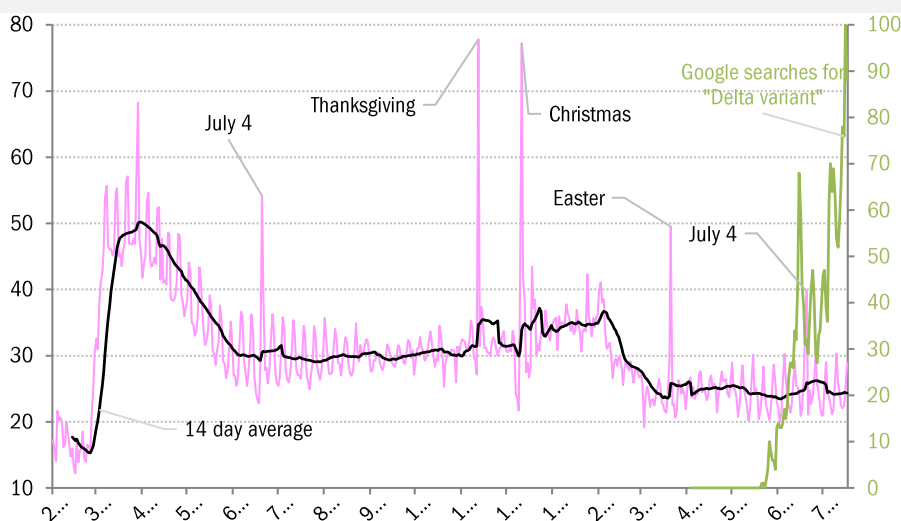
Update to strategic view

US MACRO, FEDERAL RESERVE:

A disappointing ADP payroll number, and a falling services PMI employment index, point to a miss versus the 875,000 payrolls expected for this Friday's jobs report. That will put an end to taper talk for a while. The Social Distancing Index has stopped falling, far short of pre-pandemic levels of mobility. The supply side of the labor market has been held back by stimulus payments and topped-up unemployment benefits that paid low wage earners more not to work than to work. As unemployment top-ups have rolled off, the wave of Delta variant fear has probably held back the supply side instead. Draconian restrictions to prevent the spread of Delta would damage the demand side of the labor market, too, but we see little or no chance any will be imposed – nothing worse than low-impact palliatives like masking and vaccine mandates. Elite opinion has decisively turned. The dominant narrative is now "let it go" and "let it rip."

[\[Strategy dashboard\]](#)

TrendMacro Social Distancing Index versus awareness of Delta variant



Source: [Google Mobility Reports](#), [Google Trends](#), TrendMacro calculations

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their third rounds of stimulus checks, and extensions of federally topped-up unemployment benefits that literally pay many lower-wage earners more not to work than to work.

- [Half the US states opted out of the federal top-up program, taking effect mostly at various points during the month of June.](#) So we would expect, all else equal, to have seen more remobilization, and faster payroll growth. But we haven't seen the remobilization, so we are concerned that we won't see the payroll growth.
- We can reasonably speculate that both will have been held back from their full potential by the recent wave of scare-porn about the Delta variant, which is still at high tide (again, please see the chart on the previous page).
- *Does this put at risk our expectation for an ongoing productivity-led boom? No, but it's sand in the gears to be sure,* and totally unnecessary because it is based mostly on fear mongering (see ["Video: What you're not hearing about what you just think you know about the Delta variant"](#) July 19, 2021). This morning's [update from the CDC](#) shows the least correlation yet between a US state's prevalence of the Delta variant and its growth of new Covid cases (please see the chart below) – which means that there is no evidence in the empirical data that the variant is more transmissible.

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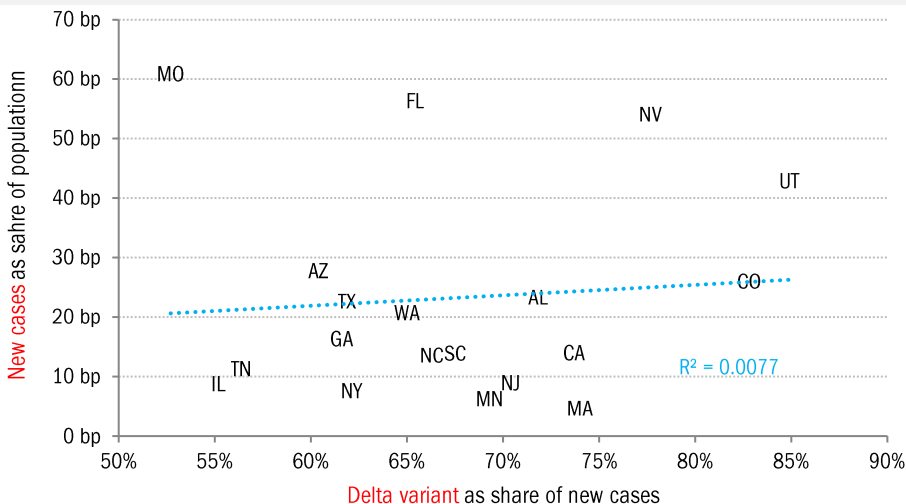
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US state Delta variant share versus case-load (As of July 17, for states with >300 gene tests)



Source: [CDC](#), TrendMacro calculations

- The wave of Delta fear operates on the supply side of the labor market by keeping otherwise willing workers home. Yes, it could operate on the demand side too by keeping businesses from hiring. But *with 9.2 million open jobs competing for 8.0 unemployed persons, the effects on the supply side are the only thing that matters.*
- *The demand side could be affected by draconian business restrictions of the kind that were put in place last year. Indeed, the most critical bet investors are being forced to make now is whether or not the wave of Delta fear in the face of rising US cases will*

bring back those restrictions in any impactful way. We are confidently betting that significant restrictions will not materialize.

- First, those restrictions were put in place during the “first wave” of Covid in March and April 2020. Those restrictions began to be loosened in May 2020, and continued to be loosened – at the national level, with some local variation – despite a far worse summer 2020 “second wave” and a very much worse winter “third wave.” The revealed behavior is that the first wave’s restrictions have been judged ineffective and too expensive, because they were not re-imposed in worse second and third waves – so why would they be reimposed now?
- Yes, political leaders are under a demand effect to “do something.” But so far, in this “fourth wave,” they’ve done little more than talk, and impose rules and regulations that have a relatively light touch.
- For example, yesterday [New York City mayor Bill Di Blasio announced](#) what amounts to a vaccine passport system. [Mask mandates](#) are coming back in some US cities. [Germany announced](#) a program of vaccine booster shots. [The US Food and Drug Administration](#) is now speeding ahead to give full regulatory approval to the Pfizer vaccine.
- To be sure it is not all helpful. The CDC, in particular, has covered itself in shame. To support [new masking guidelines](#), it leaked to the *Washington Post* [a PowerPoint deck](#) offering terrifying forecasts for growing infections, citing [a paper that had been rejected in peer review](#). And it undermined the Biden administrations drive to push more vaccinations by publishing [a poorly-researched paper](#) highlighting infections among the vaccinated – a paper that counted only one MD among its many authors, but three veterinarians.
- Meanwhile, elite opinion seems to us to have strongly turned away from lockdowns toward a new vision of accepting life with the coronavirus. Of particular note, the *New York Times*, which both reflects and determines elite opinion, ran [a page-one story](#) on “How Nations Are Learning to ‘Let It Go’ and Live With Covid.” Note the odd but telling choice of words – Let It Go. The *Times* understands that this is exactly the challenge world leaders face: letting go of the claim on vast powers conferred on them in the name of emergency.
- We also find it significant that Andrew Sullivan, a gay opinion writer who has been an icon to journalists for the two decades over which the profession has moved on-line, [just published a column](#) unflinchingly recommending “Let It Rip.” That’s another odd but telling choice of words, echoing the *Times*’ headline, and harking back to [Anthony Fauci’s sarcastic characterization](#) of the lockdown-lite strategy of the [Great Barrington Declaration](#).
- So maybe we get a disappointing jobs number Friday, but so what?
- The overarching reality is that last week we learned [US GDP had risen in Q2-2021 to an all-time high level](#) – with 6.7 million fewer workers than at the lower prior high, working 3.6% fewer man-hours. That, already, is a productivity revolution of historic proportions and implications.
- Not only is the 2-month 2020 Depression [officially over](#) – not only is the V-shaped recovery we predicted a year-ago April complete (see [“On the March Jobs Report, and Being in Recession \(Whatever](#)

[that Means\)](#) April 3, 2020). It's all that – and we still enjoy an enormous output gap. That is to say: on top of an already all-time high GDP level, we have to look forward to all the additional growth that will come from 6.7 million workers coming back to work, bringing hours-worked back to the pre-pandemic record and beyond – and all that on the wings of an ongoing productivity boom as we optimize all the hard-earned lessons of the pandemic about how to work and how to produce.

Bottom line

A disappointing ADP payroll number, and a falling services PMI employment index, point to a miss versus the 875,000 payrolls expected for this Friday's jobs report. That will put an end to taper talk for a while. The Social Distancing Index has stopped falling, far short of pre-pandemic levels of mobility. The supply side of the labor market has been held back by stimulus payments and topped-up unemployment benefits that paid low wage earners more not to work than to work. As unemployment top-ups have rolled off, the wave of Delta variant fear has probably held back the supply side instead. Draconian restrictions to prevent the spread of Delta would damage the demand side of the labor market, too, but we see little or no chance any will be imposed – nothing worse than low-impact palliatives like masking and vaccine mandates. Elite opinion has decisively turned. The dominant narrative is now “let it go” and “let it rip.” 