

TRENDMACRO LIVE!

## On the July Jobs Report

Friday, August 6, 2021

Donald Luskin

**26 states stop paying people more not to work than to work – and voila!**

ROFL and never so happy to be wrong. We were worried about a miss in [this morning's July Employment Situation report](#) (see ["Let It Go, Let It Rip"](#) August 4, 2021). Instead, *the net gain of 943,000 payrolls blew by consensus expectations for 858,000 – all the more impressive on the back of upward revisions of 119,000 to the prior two months. The "household survey" was even stronger, with 1.04 million new jobs.* To be sure, it remains a reality that this is an outlier among contemporaneous labor market data – our model that derives a payroll-equivalent from all the other available data shows a gain of only 280,000. But maybe we should just believe our own bumper sticker: the biggest mistake now is not to be optimistic enough.

- Assuming the payroll data is the correct view, then we underestimated the immediate impact of the suspension of federal top-ups to unemployment benefits, [rolling off in June in 23 states, and in early July in 3 others](#). Today's is the first jobs report that could have reflected any effects from that. The top-ups had held back labor force participation by paying the unemployed more not to work than to work, by about 26% on average. The most intense locus of this effect is the low-wage leisure sector, which led July's jobs surge with 380,000 new payrolls.
- With this friction against employment removed, for the first time*



Man Getting Evicted Wishes There Were Some Way He Could Go Out And Exchange His Labor For Money To Pay Rent

*since the benefits were extended in February's relief legislation, new payrolls at 943,000 came within spitting distance of aligning with the 1.06 million persons who reported they were no longer barred from work due to Covid-related business closures. In prior months, the gap has ranged from 760,000 to 1.74 million payrolls. Imagine what we could have done if all 50 states had opted out of the top-*

### Update to strategic view

**US MACRO, FEDERAL RESERVE:** A big beat in payrolls, all the more so on the back of large upward revisions to prior months. It's confirmed by an even larger jump in employment measured by the "household survey." It is a large upside outlier versus other contemporaneous labor market data. This is the first jobs report to reflect 26 states opting out from federal top-ups to unemployment benefits. We don't have state-level data to prove that yet. But July is the first month in which net new payrolls came close to matching the number of workers who said they are no longer barred from working due to Covid-related business closures. This will activate talk about Fed tapering. We don't think it matters one way or the other at this point. But in the previous business cycle recovery, with payrolls closer than now to reattaining their pre-recession peak, the Fed launched QE3. Powell is up for reappointment, and we suspect he is in no hurry to take any steam out of the economic recovery presided over by the administration that will make the call.

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ups. And think of what's ahead when they do...

- When the Bureau of Labor Statistics releases [state-level payroll data](#) in two weeks, we'll be able to rigorously assess to what extent this effect was in play. Right now it's just logical conjecture, but we expect it will prove out in the data.
- Even at just 26 states – the rest will follow after Labor Day – 782,000 workers came back to work who had been unemployed but still in the labor force. Another 261,000 unemployed came back to work from entirely outside the labor force. None have them had to endure a temporary period of unemployment upon re-entry. *The “outflow rate from unemployment” – that is, the probability of finding a job within 30 days, has risen to a new recovery high at levels not seen since before the pandemic lockdowns* (see [“Data Insights: Jobs”](#) August 6, 2021). And despite this expansion of the labor force, the unemployment rate fell to a new recovery low at 5.39%.
- We suppose now we'll have to deal with all the talk about how this will nudge the Fed toward tapering asset purchases. We're not at all believers that it would matter if they did or if they didn't (see, among others, [“Video: Three things you aren't hearing about the coming taper tantrum”](#) June 7, 2021).
- Remember, though, that even after today's blockbuster payroll number, we're still 5.7 million below the pre-pandemic starting point. In the aftermath of the Great Recession of 2008-2009 (it doesn't seem so “great” anymore, does it?) we were still 5.7 million jobs from peak in November 2011, 17 months after the official cycle trough. Less than a year later, we were still 3.9 million payrolls from the prior peak, closer to reattaining it than we are now – and yet the Fed, rather than tapering, embarked on QE3.
- We're pretty sure Fed chair Jerome Powell would like to get reappointed when his term runs out early next year. With that context from the prior recovery in mind, why would he do anything to take any steam at all out of the boom being presided over by the administration that will make the call?

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## Bottom line

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