

TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 3, 2021

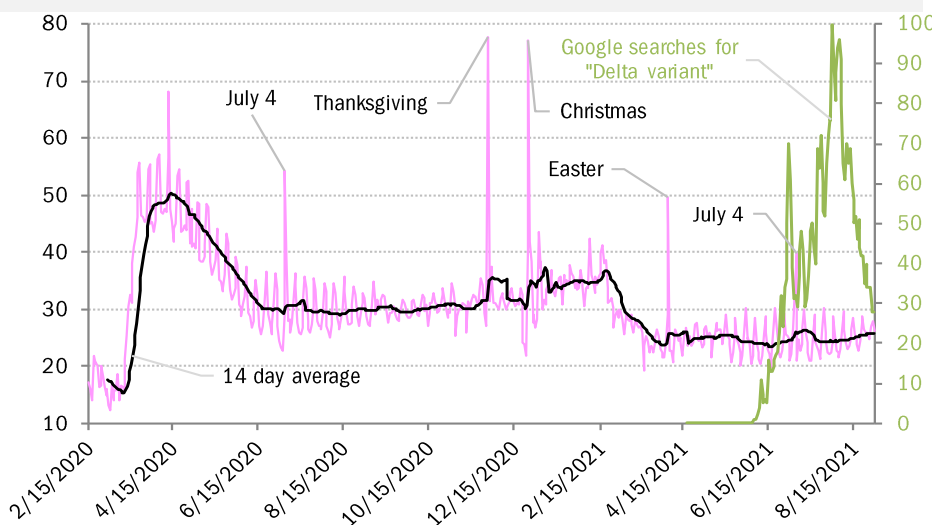
Donald Luskin

Delta made the US demobilize a little. Tepid payrolls defer tapering till the December FOMC.

A gain of 225,000 net payrolls reported in [this morning's August Employment Situation report](#) was a substantial miss versus the consensus for 733,000. Our TrendMacro Payroll Model based on contemporaneous labor market indicators nailed it with an estimate of 189,000 (see "[Data Insights: Jobs](#)" September 3, 2021). The miss is partly offset by upward revisions of 134,00 to the prior two months. But that leaves a lot of explaining.

- We think it's pretty obvious. Jobs growth now is highly contingent on the re-opening of the economy, which is in turn contingent on the willingness of consumers and workers to remobilize from pandemic-driven shutdowns. The TrendMacro Social Distancing Index based on cell-phone mobility shows that *America has demobilized somewhat over the last month or so, amidst a new Covid-19 case-wave coincident with (maybe or maybe not caused by) the rise of the Delta variant* (please see the chart below).

TrendMacro Social Distancing Index versus awareness of Delta variant



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

- In the Employment Report, *this shows most clearly in the failure of the reopening-sensitive Leisure and Hospitality sector to gain a single net payroll* – having led the gains month after month until

Update to strategic view

US MACRO, FEDERAL RESERVE:

A big miss, offset somewhat by large upward revisions to prior blockbuster months. 225,000 payrolls is consistent with our model based on contemporaneous labor market indicators. We think this tepid jobs growth is connected to the slight reversal of remobilization seen in our Social Distancing Index, associated with a new Covid case-wave and fears of the Delta variant. If the US follows the global pattern, the case wave will soon reverse itself, and public obsession with Delta has already begun to abate. Strong growth of the labor force is likely associated with the maturation of the roll-off of enhanced unemployment benefits in half the US states. Following two blockbusters, this tepid jobs report likely moves the Fed's announcement of taper back to the December FOMC; there will be only one more jobs report before the November meeting. Powell, seeking "broad and inclusive" employment (and reappointment) will be especially disappointed by the sharp rise in the African American unemployment rate.

now. We've seen it coming for a while now in our weekly review of the high-frequency performance of airline passengers and restaurant seatings (see ["Data Insights: High-Frequency Post-Virus Recovery Monitor"](#) September 2, 2021).

- And it shows clearly in the [Bureau of Labor Statistics' new survey data](#) on pandemic-related unemployment. *After months of re-officing, 291,000 workers returned to tele-working. 497,000 more than last month said they couldn't find work due to business closures.*
- *We predict these effects will be temporary.* The epidemiological course of the pandemic is hard to forecast, but it's clear that Delta-associated case-waves in the larger economies that dealt with it earliest – especially India, where the variant originated – are not long-lasting. We're seeing that as a rollover in daily new cases on a global basis (see ["Data Insights: Covid-19 Monitor"](#) September 3, 2021) – but not yet in the US, because it was among the last of the larger economies to encounter Delta.
- *It's a little easier to predict sentiment – and we already see the public obsession with the Delta variant fading away,* as reflected in the number of Google searches for that term (again, please see the chart on the previous page). *It's public sentiment that drives re-opening – not the reality of the virus itself.* We continue to believe that the new dominant narrative is "learn to live with it" (see ["Let It Go, Let It Rip"](#) August 4, 2021). That has to be true: if it weren't, *given the present US case-wave and obsession with the Delta variant, our Social Indexing Distance would have backed up far more than it has and we'd be looking at payroll losses, not just somewhat disappointing gains.*

There are some interesting internals worth considering in this morning's Employment Report:

- The labor force grew by 190,000 – 63,000 of whom said they were no longer barred from entry due to the pandemic. This may reflect the fact that *now the 25 states that opted out of employment-discouraging enhanced unemployment benefits have done so for, on average, 50 days.* It was just 19 days at the last Employment Report, and the state-level data didn't reveal much of an effect associated with opting-out or not (see ["Video: What you're not hearing about the end of enhanced unemployment benefits"](#) August 23, 2021). We'll know more about that in two weeks when the August [state-level data](#) is published.
- *Those benefits roll off Monday for all states, and we'll soon enough start seeing the effects of that as well. There will be calls to continue the benefits from some political quarters, but it won't be easy to make the case considering that the unemployment rate fell to a new cycle low in August.*
- The "household survey" was a little more positive, showing 509,000 new jobs. Unemployment fell by 318,000 – more than all of it among the long-term unemployed (that is, jobless for more than 26 weeks). That's what drove the unemployment rate to a new low at 5.2%.

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- For the Fed, this means this jobs report presents a mixed picture as they consider announcing tapering of large-scale asset purchases. On the one hand, the payroll miss would seem to thwart the Fed's expectations for a rapidly recovering labor market – expectations formed by blockbusters like July's payroll gains at 943,000, which indeed were revised higher to 1.043 million today (see [“On the July Jobs Report”](#) August 6, 2021). On the other hand, there was a time not so long ago that an unemployment rate of 5.2% was considered the upper bound of “full employment.”
- But today's Fed is taking seriously its statutory mandate for “maximum employment,” and they've defined that as a “broad and inclusive” goal. It won't be lost on chair Jerome Powell, seeking reappointment by a Democratic administration, that in August the African American unemployment rate rose sharply to 8.8% from 8.2%, while falling overall and for all other ethnic groups.
- Moreover, Powell made it clear in [his speech last week at Jackson Hole](#) that there is “substantial slack remaining in the labor market” and that the unemployment rate “understates the amount” (presumably because, for all the recovery in the labor force, it is still 2.9 million persons smaller than it was just before the pandemic).
- So we think that in Powell's mind, signs of labor force weakness probably win all ties – so today's jobs report should probably be seen as moving the announcement of tapering out to the December FOMC meeting. We had previously been thinking it would be at November's meeting (see [“On Powell at Jackson Hole \(Virtually\)”](#) August 27, 2021), but at this point there's only one more jobs report before that one.

Bottom line

A big miss, offset somewhat by large upward revisions to prior blockbuster months. 225,000 payrolls is consistent with our model based on contemporaneous labor market indicators. We think this tepid jobs growth is connected to the slight reversal of remobilization seen in our Social Distancing Index, associated with a new Covid case-wave and fears of the Delta variant. If the US follows the global pattern, the case wave will soon reverse itself, and public obsession with Delta has already begun to abate. Strong growth of the labor force is likely associated with the maturation of the roll-off of enhanced unemployment benefits in half the US states. Following two blockbusters, this tepid jobs report likely moves the Fed's announcement of taper back to the December FOMC; there will be only one more jobs report before the November meeting. Powell, seeking “broad and inclusive” employment (and reappointment) will be especially disappointed by the sharp rise in the African American unemployment rate.

