

TRENDMACRO LIVE!

On the December Jobs Report

Friday, January 7, 2022

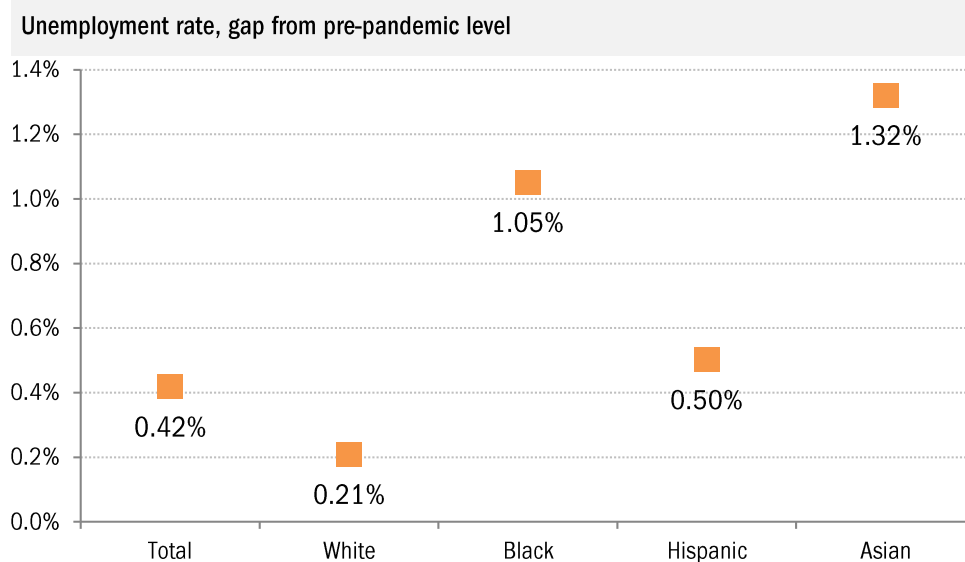
Donald Luskin

It was a white Christmas. Drops in black, Hispanic and Asian jobs don't meet Powell's goals.

[This morning's December Employment Situation report](#) was a very mixed bag. Headline payroll gains at 199,000 were a miss versus consensus expectations for 450,000 – but some of the gap is closed by upward revisions of 141,000 to the prior two months. *We're slightly suspicious of the data, and not just because the Bureau of Labor Statistics' surveys were all taken in the second week of the month, before the Omicron variant case-wave had gathered much steam – indeed 439,000 fewer persons were reported as unable to work due to the pandemic, compared to the prior month.*

199,000 payrolls is an even larger miss versus our model based on objective contemporaneous labor market statistics, which was calling for 487,000 (for the model's inputs, see ["Data Insights: Jobs"](#) January 7, 2022). And for the second month in a row, *the "payroll survey" is at variance with the "household survey,"* which reported employment rising by 651,000.

- According to the "household survey," those 651,000 were filled by 483,000 persons leaving unemployment and 168,000 returning from outside the labor force. Altogether, *that lowered the headline*



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: Twice in a row now, a big miss for payrolls but a strong household survey. The statistics were gathered before the Omicron case-wave hit, so any effects of that won't show up till the January report. The unemployment rate made a new post-pandemic low, the first time below 4%. It remains slightly above the pre-pandemic benchmark. More than all the jobs gains in December were whites; employment fell for blacks, Hispanics and Asians, setting back the Fed's efforts for "inclusive maximum employment." The January report will likely be weak due to Omicron, and by the March FOMC it would take a very strong February report to undo what will then be three weak reports in a row, which should keep lift-off from the zero funds rate from happening at that meeting. Once Powell's Senate confirmation hearing next week is done, we think he will soften what now seems to be a very hard anti-inflation stance, which he is adopting only as a political fig leaf to conceal culpability in excessive and distortive fiscal stimulus.

unemployment rate to 3.89% – a level once thought to be crazy low, but by today's standards, still dismayingly above the pre-pandemic low of 3.47%.

- We think that from the Fed's point of view this will be seen as a weak and disappointing jobs report, especially considering the Fed's longer-run policy objective to define "maximum employment" as "inclusive." Non-white unemployment fell sharply in last month's November Employment Situation report, which Fed Chair Jerome Powell bragged about at the press conference following the December FOMC meeting (see "On the December FOMC" December 15, 2021). Last month, of the 651,000 new jobs reported in the household survey, more than all went to whites. Black employment fell by 86,000; Hispanic by 5,000; and Asian by 36,000. So for whites, getting back to the pre-pandemic unemployment rate is a matter of a mere 21 bp – for blacks it is five times that (please see the chart on the previous page).
- That may not be the only disappointment facing the Fed now.
- Looking ahead to the January jobs report, for which surveys will take place over the coming week, we know on the one hand that just before Christmas immobilization of the US economy reached a new post-pandemic low according to the TrendMacro Social Distancing Index (see "Video: What you're not hearing about Omicron and the most important chart in economics" December 27, 2021). This is consistent with a new post-pandemic high for gasoline consumption (see "Data Insights: High Frequency Post-Virus Recovery Monitor" January 6, 2022).
- But coming out of the Christmas holidays, US Covid cases have risen to new all-time highs. We don't think there's much of an air of panic about it, with so few deaths associated with so many cases, but it doesn't take much panic to ruin January as far as jobs are concerned. That would make three-in-a-row not-so-great jobs reports (November's was poor, too – see "On the November Jobs Report" December 3, 2021). Does it really make sense for the money-market curve to imply an 87% probability to a March FOMC lift-off from the near-zero funds rate? By the time of that meeting, if January is weak, all the committee will have in hand beyond that is the February jobs report – it would have to be a very strong one.
- Perhaps more important for the Fed, Powell's confirmation hearings in the Senate have been scheduled for next Tuesday. We expect he will reprise his performative political role as an inflation justice warrior (see "Jay Powell: Inflation Justice Warrior" December 14, 2021) – making this one of the very few times in history that a Fed chairman will please politicians by being hawkish. But these are special circumstances. Powell's posturing aided and abetted three fiscal stimulus bills in the name of Covid relief, of which the first was necessary, the second was dubious, and the third was just a downright engine of economic distortion that led to the labor market supply constraints that have contributed much of the present bout of inflation. Now his posturing will absolve the Senators – who hold his career in their hands – of responsibility for that inflation. And then, when he is confirmed – just like that – he'll be a dove again.

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Bottom line

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