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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 6, 2022

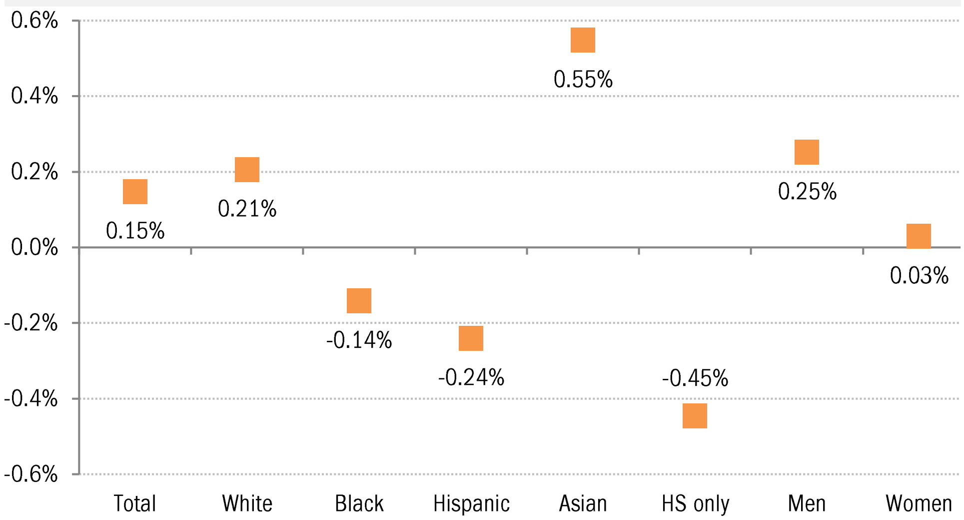
Donald Luskin

A mixed bag of contradictions that won't make hawks dovish or doves hawkish.

We could be snippy about it and say that 428,000 net payroll gains in this morning's April Employment Situation report doesn't exactly bear out Fed Chair Pro Tempore Jerome Powell's claim, made no less than four times at Wednesday's FOMC press conference that the "labor market is extremely tight." How does an "extremely tight" labor market add that many payrolls in a month when the prime-age population grows by only about 90,000?

- Unfortunately, once again, *it's hard to be confident about it one way or the other, because labor market data continues to be internally contradictory*. That 428,000 payroll beat consensus expectations for 380,000 – all the more so considering downward revisions to the prior two months totaling 39,000. Without seasonal adjustments, the net gain would have been 1.07 million (see "Data Insights: Jobs" May 6, 2022).
- That said, 428,000 payrolls is way out of whack with the 209,000 estimated by our model based on contemporaneous labor market statistics (see "Data Insights: Jobs" May 6, 2022).
- And *the big gains in the "payroll survey" are starkly contradicted by a contraction of 353,000 jobs in the "household survey."* All year the two surveys have presented very different numbers – but so far

Distance from pre-pandemic unemployment rates



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: A headline beat for payrolls, but a jobs contraction in the household survey and a contraction in the labor force. Hours worked have finally slightly exceeded the previous record before the pandemic – but the fact that GDP is 2.8% higher points to large and sustainable productivity gains. The unemployment rate was unchanged overall, but has now beat the pre-pandemic benchmark for blacks, Hispanics and high school only. Average hourly earnings growth was strong, but less strong than last month – the moderation the Fed's script seems to be looking for (but not the contraction Powell's off-script comments suggest). Amidst the mixed signals in this morning's report, we don't see anything that would cause either hawks or doves on the Fed to change their minds about anything.

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they've been in the same direction, with the household survey stronger than the payroll survey. This is the first month this year that the household was weaker than the payroll, and indeed had an entirely different sign.

- The household survey also showed a contraction in the labor force of 363,000, leaving the headline unemployment rate perfectly unchanged at 3.62%.
- Beneath the headline rate, the Fed's goal ideal of "inclusive maximum employment" has now overshot for blacks, Hispanics and high school only. Whites, Asians and men are bringing up the rear, but it's close (please see the chart on the first page).
- As to wages, the Fed can't seem to articulate what its goal is. We suspect Powell was sticking to script Wednesday when he said "wage inflation will moderate to still high levels of wage increases." He was probably off-script when he said "by moderating demand…we get wages down." In April, average hourly earnings stuck to the script, rising 0.31%, down from March's 0.47%.
- We note with interest that in April ***total hours worked finally eked out a new all-time high, beating the previous all-time high just before the pandemic by a mere 0.0025%***. Coming the same month as a contraction in the labor force, it means fewer people are working more hours per capita. It's not clear what that means for productivity growth month-on-month, because we don't see their output. But taking the long view, ***we do see a productivity revolution in the fact that gross domestic product is 2.8% higher than it was before the pandemic, but hours worked are only barely higher at all***.
- We don't see how this report will have, on net, much impact on the Fed's thinking. Amidst all the ways of looking at it we have just recounted, there's something for the hawks and something for the doves.
- It feels as though the markets' initial take was relief that headline payrolls aren't pointing to the recession many commentators are wringing their hands about. But as of this writing an hour later, ***it feels as though markets wish there were a little more recession risk that the Fed would wring its hands about***.

Bottom line

A headline beat for payrolls, but a jobs contraction in the household survey and a contraction in the labor force. Hours worked have finally slightly exceeded the previous record before the pandemic – but the fact that GDP is 2.8% higher points to large and sustainable productivity gains. The unemployment rate was unchanged overall, but has now beat the pre-pandemic benchmark for blacks, Hispanics and high school only. Average hourly earnings growth was strong, but less strong than last month – the moderation the Fed's script seems to be looking for (but not the contraction Powell's off-script comments suggest). Amidst the mixed signals in this morning's report, we don't see anything that would cause either hawks or doves on the Fed to change their minds about anything.