Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the February Jobs Report

Friday, March 10, 2023

Donald Luskin

Could this be the cat that barks, the dog that meows, that Powell is looking for amidst an incipient bank crisis?

This morning's February Employment Situation report shows some wonderful signs for those remaining few of us who aren't calling for a recession. At the same time, *it gives Fed Chair Jerome Powell a seemingly perfect mixture of the quixotic and contradictory messages he is looking for to assure that an absence of recession nevertheless leaves the door open for inflation to continue to fall. Not altogether a bad thing considering we are courting* a potential banking crisis driven in no small part *by Powell's scorched-earth rate hikes*.

- February's 311,000 net payrolls beat the consensus estimate for 225,000. That also beat our model based on an array of contemporaneous labor market indicators, which was calling for 234,000 (for all the components, see "Data Insights: Jobs" March 10, 2023).

Generative AI token: "The US jobs markets continues to be strong, style of WPA poster"

Source: DreamStudio running Stable Diffusion 1.5

Update to strategic view

US MACRO, FEDERAL RESERVE: Another payroll beat for February, on the shoulders of only very modest downward revisions to January's blockbuster. While a banking crisis suddenly emerges, this jobs report offers Powell some perfect reasons for constraining the March FOMC's hike to just 25bp. It is similar to the Bank of England's September gilts crisis, that forced them to resume quantitative easing. The unemployment rate rose, but not because employment fell – because the labor force expanded, implying the loosening of labor market conditions Powell is looking for. This is ratified by the modest gain in average hourly earnings, following downward revisions to the two prior months. And job openings, Powell's leading evidence of labor market tightness, fell sharply in January, on top of upward revisions to the last four years' data. The bank crisis puts to the test our proposition that the economy is a "house of brick," invulnerable to the shock of Powell's huffing and puffing.

[Strategy dashboard]

- There was only an insignificant downward revision of 13,000 to January's implausible payroll blow-out of 517,000 jobs (see "On the January Jobs Report, and US Services PMI" February 3, 2023). December was revised lower also, by 21,000. Together, revisions of 34,000 take 40% out of this morning's payroll beat.
- *There were two especially Powell-pandering parts.*
- *First, the unemployment rate rose 0.14% to 3.57%.* This is despite the happy fact that, according to the "household survey" from which the unemployment rate is derived, the number of employed persons increased by 177,000. Yes, the number of *unemployed* persons rose too, by 242,000. But that's because the labor force expanded by 419,000. *Powell-perfect (and growth-good at the same time): the labor market is getting less "tight," but nobody's losing their jobs.*
- *Second, this would seem to be ratified by the modest 0.24% monthly increase in average hourly earnings*, the smallest (but one) in 23 months – and this on the back of downward revisions to the prior two months. *Yes Jay, you can have it all – nobody is losing their jobs, but thank God they aren't being paid more.*
- *Third, Powell will appreciate similar paradoxes in yesterday's* Job Openings and Labor Turnover Survey (JOLTS) *report on Wednesday*. On the one hand, job openings – Powell's token that employers can't hire all the workers they want without inflationary wage increase – declined by 410,000 in January (the most recent month reported). But the last four years of data was revised upward, with *January's drop starting from a height 222,000 openings higher*.
- *We have no idea where the sudden banking crisis that has sprung up around Silicon Valley Bank* (our bank during our start-up days in the dotcom boom – we got our money out 20 years early) *will lead. To be sure, it will be a rigorous test of our belief that the US economy is a "house of brick" that is immune to shocks like the huffing and puffing of the Powell Fed* (see "Good News is Bad News is Equilibrium" February 16, 2023).
- *The Fed's unwritten first mandate is to prevent banking crises – especially ones they cause.* SVB's problem appears to be that it is being forced, in order to accommodate withdrawals of deposits, to realize losses on Treasury securities that depreciated sharply on a mark-to-market basis thanks to the Fed's rapid and aggressive tightening last year.
- Good thing, at least, that hundreds of billions of such mark-to-market losses live on the Fed's own balance sheet instead of in the banking system. What have we been saying about quantitative easing? *It's not monetary policy – it's about de-risking the banking system.*
- *This feels like a replay of what happened in the UK gilts market after the Bank of England was the world's first central bank to lift off from pandemic low policy rates* (see "It's Starting to Feel a Lot Like Brexit" September 28, 2022, and "Video :A conversation with Toby Nangle on the financial crisis in the UK" October 26, 2022). The BOE had to abort its plans to accelerate so-called "quantitative tightening" and revert to bond-buying to quell the crisis.

- *So we can be sure that this, along with arguably dove-friendly labor data this morning, will limit the March FOMC's rate hike to 25 bp* (it would take an outright bank run – or, dare we hope, a stunningly wonderful February CPI report next week – to make it less than that).

Among other interesting internals from this morning's jobs report (again, see "Data Insights: Jobs"):

- In January, skeptics understandably pointed to the absurdity of 517,000 payroll gains on a seasonally adjusted basis, but 2.505 *million* losses on an unadjusted basis. In February, it's the opposite. The adjusted 311,000 gains would have been 1.119 million gains unadjusted.
- Weather helped again, as it did in January. Despite high-profile weather flukes, 2.7% of unemployment was due to weather, versus the February average of 3.7% (that's a tailwind of 74,000 jobs).
- For those of you who think temporary employment is a better leading indicator of economic weakness than overall payrolls (not true, but you hear it all the time – see "Video: What you're not hearing about the recession signal in temporary payrolls" January 30, 2023), February is now the second month in a row to see temporary payrolls rise.

Bottom line

Another payroll beat for February, on the shoulders of only very modest downward revisions to January's blockbuster. While a banking crisis suddenly emerges, this jobs report offers Powell some perfect reasons for constraining the March FOMC's hike to just 25bp. It is similar to the Bank of England's September gilts crisis, that forced them to resume quantitative easing. The unemployment rate rose, but not because employment fell – because the labor force expanded, implying the loosening of labor market conditions Powell is looking for. This is ratified by the modest gain in average hourly earnings, following downward revisions to the two prior months. And job openings, Powell's leading evidence of labor market tightness, fell sharply in January, on top of upward revisions to the last four years' data. The bank crisis puts to the test our proposition that the economy is a "house of brick," invulnerable to the shock of Powell's huffing and puffing.