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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 5, 2023
Donald Luskin

The lowest unemployment rate in almost 70 years. Powell: "it wasn't supposed to be possible."

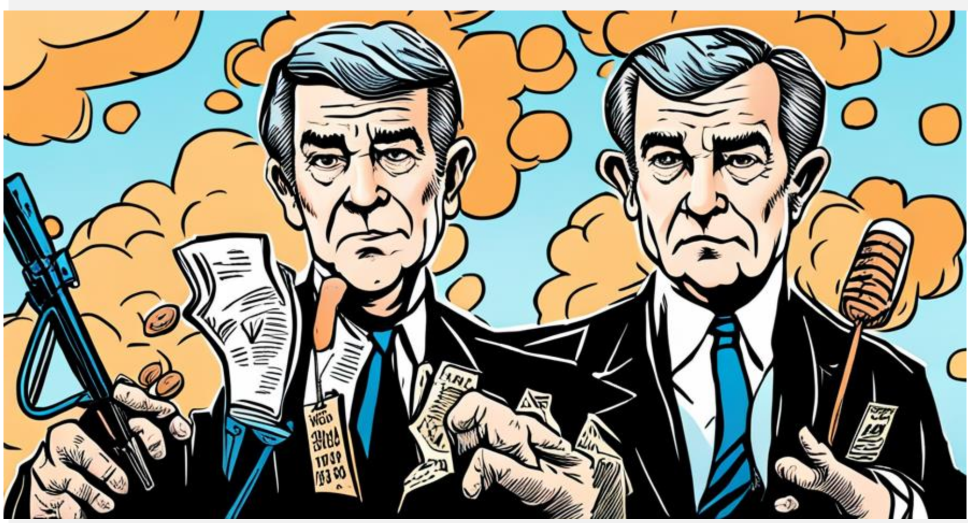
The May FOMC statement and Chair Jerome Powell's amplifications in the post-meeting press conference made it clear that the present rate-hiking cycle is over (see "On the May FOMC" May 3, 2023). But this morning's Employment Situation report will put pressure on that, *abundant with the signs that Powell typically cites to argue that the labor market is excessively tight*. There were 253,000 net payroll gains – a big beat versus the consensus for 185,000. The unemployment rate fell to 3.4% – we haven't seen lower since October 1953. *And there was a 0.48% month-on-month jump in average hourly earnings – the biggest in 25 months*.

That last part, especially, is going to challenge Powell to live up to what amounts to a whopping lie he told in the presser:

> "I do not think that wages are the principal driver of inflation. …you know, I've never said that, you know, that it -- that wages are really the principal driver because I don't think that's really right."

Where would we even begin on this "bottomless Pinocchio"? You can

Generative AI token: "Jerome Powell I do not think that wages are the principal driver of inflation I never said that, comic book style"



Source: DreamStudio running SDXL beta

Update to strategic view

US MACRO, FEDERAL RESERVE: A payroll beat at 253,000 thousand, the lowest unemployment rate in almost 70 years and the fastest hourly earnings growth in 25 months – it puts pressure on Powell to follow through on the all-but-declared ending to this hiking cycle. At Wednesday's FOMC Powell told the lie that he never said there was a causal connection between labor market strength and inflation. He has in fact said just that many times. There are second-order signs in today's report that Powell could invoke to find some weakness. But his lie is constructive, because there is indeed no such connection. As inflation continues to fall, accepting the truth now is the key to fulfillment of the market's expectations that rate cuts will begin in the second half of this year.

[Strategy dashboard]

catch Powell out by looking at just about any public statement he's made in the last two years. For instance, how about this, from [his November speech specifically on this subject], called "Inflation and the Labor Market":

> "…core services other than housing… the largest of our three categories, constituting more than half of the core PCE index. Thus, this may be the most important category for understanding the future evolution of core inflation. Because wages make up the largest cost in delivering these services, the labor market holds the key to understanding inflation in this category."

The irony is that Powell's lie gets at the truth. *Wage growth and other indicia of labor market tightness have nothing to do with inflation* (see "Video: What you're not hearing about services inflation and the 'over-tight' labor market" August 16, 2022). This is borne out by the fact that while the unemployment rate announced this morning is the lowest in almost 70 years, the subset of consumer prices Powell focuses on as "most important" topped out a year-and-a-half ago and has been steadily drifting lower. In Wednesday's presser, *Powell was clear that falling inflation is the necessary predicate to rate cuts – and we have deep conviction he's going to get that, no matter what the unemployment rate or wage growth does* (see, among many, "FOMC Preview: Inflation (and First Republic) Collapse" May 1, 2023).

- *So we don't interpret this morning's jobs report as disrupting the market's embedded expectations for the end of this hiking cycle, and the onset of cuts in the second half of this year.*

If Powell wants to grasp at straws, he could find some second-order signs of weakness in this morning's jobs report (see "Data Insights: Jobs" May 5, 2023.

- March and February payrolls were revised sharply lower, by 71,000 and 78,000 respectively. That lowers the bar by 149,000, and means that today's reported gain of 253,000 payrolls really puts the level of total payrolls for April only 104,000 above what we previously thought the March level was.
- That's a straw for Powell if he wants one, but the 253,000 payroll gain is nevertheless real as a high-frequency contemporaneous indicator of economic strength. The fact that two months now in the rearview mirror were marked down tells us little about today's realities.
- The unemployment rate fell because of the good news that (according to the Current Population Survey – the "household survey") employment rose by 139,000 at the same time as unemployment fell by 182,000. The bad news is that it implies 43,000 persons left the labor force, to that extent reducing the number of ostensibly available workers.
- Temporary employment fell by 23,000, taking it to a new cycle low 174,000 from its peak in March 2023, the month the Fed lifted off from the zero funds rate. Some observers see this as a leading

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indicator of labor market weakness. We don't (see "Video: What you're not hearing about the recession signal in temporary payrolls" January 30, 2023), but it's there for those who do.

- And as Powell mentioned in Wednesday's presser, job openings fell 384,000 to a new cycle low at 9.59 million in Monday's Job Openings and Labor Turnover Survey (JOLTS) report. He said, "openings are still very, very high," but it's been his *bête noire* this whole hiking cycle, so it's good news for him that openings are off 2.44 million since their high at 12.03 million (also in March 2022). Perhaps the dose of reality that moved him to tell his lie about wage growth and inflation was the fact that, over the same period, payrolls have grown by 4.24 million. *We added more jobs than the number of openings fell, and inflation retreated at the same time*.
- At Wednesday's presser, Powell said "it wasn't supposed to be possible." The beginning of wisdom, maybe. Hopefully that's what he'll say about today's jobs report, and his lie about the causal connection between wages and inflation will become our new truth.

Bottom line

A payroll beat at 253,000 thousand, the lowest unemployment rate in almost 70 years and the fastest hourly earnings growth in 25 months – it puts pressure on Powell to follow through on the all-but-declared ending to this hiking cycle. At Wednesday's FOMC Powell told the lie that he never said there was a causal connection between labor market strength and inflation. He has in fact said just that many times. There are second-order signs in today's report that Powell could invoke to find some weakness. But his lie is constructive, because there is indeed no such connection. As inflation continues to fall, accepting the truth now is the key to fulfillment of the market's expectations that rate cuts will begin in the second half of this year.