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TRENDMACRO LIVE!

# On the March Jobs Report

Friday, April 5, 2013

**Donald Luskin**

**Risk-relief, a housing recovery and an energy boom aren't overcoming higher taxes.**

This morning's Employment Situation report was the biggest miss versus expectations since September 2011 (please see the chart below) -- and those expectations had been coming down over the week. This ought to go a long way toward sobering the market to the truth that the US economy is still very much mired in the Not So Great Expansion.

- As we've been warning since the beginning of this year, relief from policy risks such as the year-end fiscal cliff and true but shopworn narratives about the housing recovery and the energy boom just aren't enough to inflect the economy toward faster growth -- not in the face of higher tax rates across the board (see, most recently, "New Highs, Same Old Cloudy Skies" April 1, 2013).
- The spate of improved data we saw in January and February may have been just an artifact of massive accelerated dividend and incentive compensation payments made in December to get ahead of higher tax rates (see "On Q4 GDP" January 30, 2013).
- It's hard to know whether the onset of federal government sequesters in March had any impact. We would not have expected much (see "Do the Sequesters Matter?" February 8, 2013). For what it's worth, according to the Household Survey statistics this

**Update to strategic view**

**US MACRO:** A huge miss in jobs this morning is proof that the US economy is not inflecting toward more rapid growth, and is indeed still mired in the Not So Great Expansion. The effects of accelerated income payouts last December have now dissipated, and true but shopworn narratives about a housing recovery and an energy boom aren't enough to compensate. Adjusting for the drop in labor force participation…

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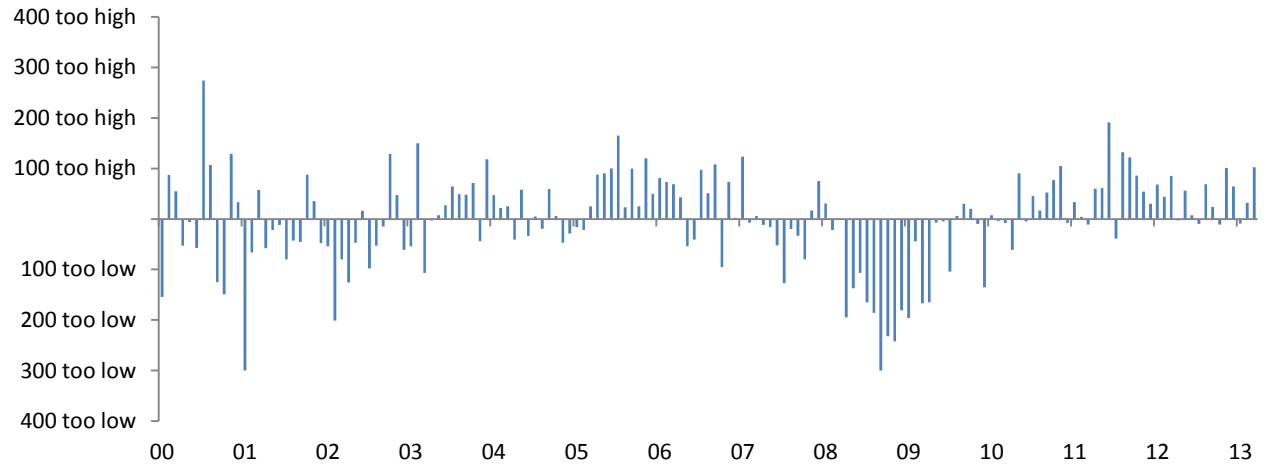
**Non-farm payrolls report, consensus estimate versus actual**

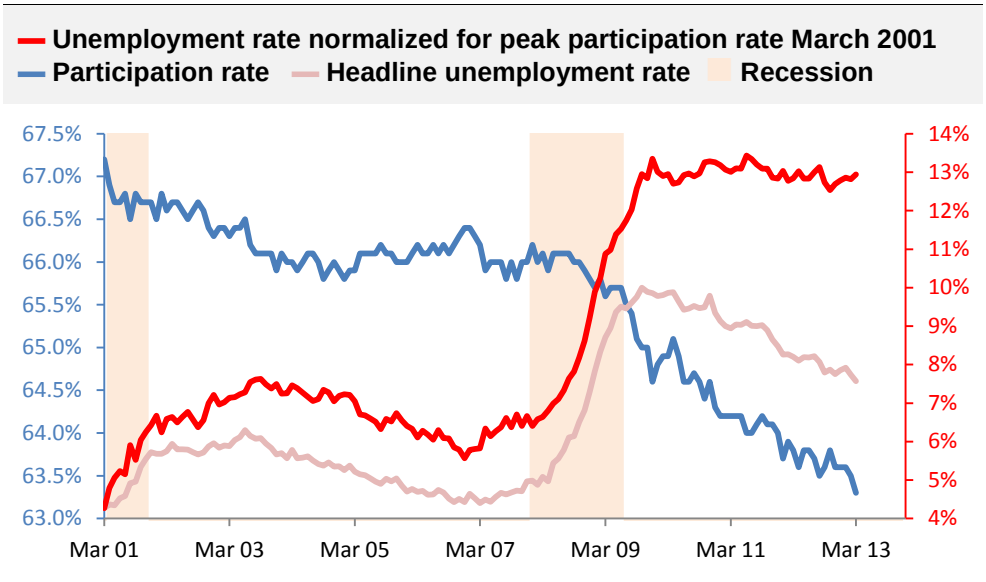



Source: Bloomberg, TrendMacro calculations

morning government employment rose by 62,000.

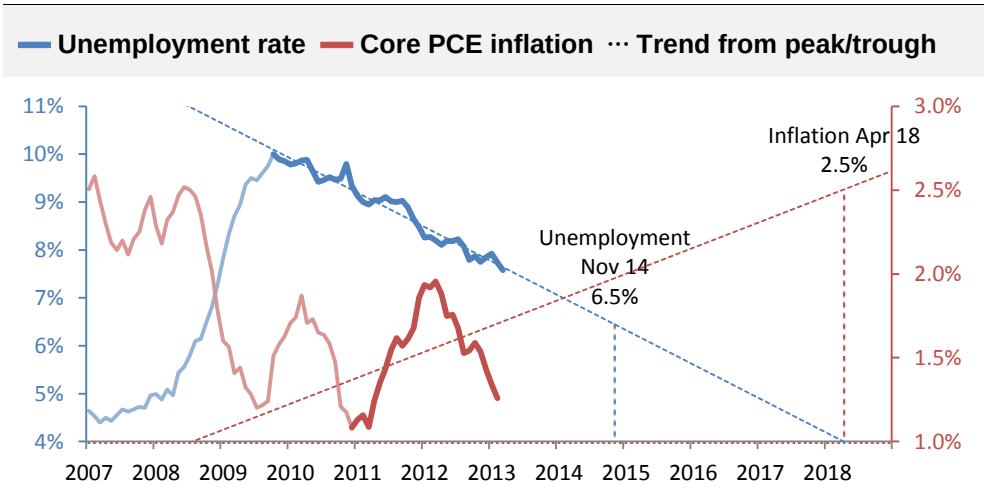
There was a lot not to like in this morning's report.

- Even the drop in the unemployment rate was manifestly bad news, as it was more than fully explained by shrinkage of 496,000 in the labor force. Of that, 206,000 were employed and 290,000 were unemployed.
- This brings the labor force participation rate to a new low at 63.3%, a level not seen since May 1979.
- Normalized for peak labor force participation in 2000, the unemployment rate actually *went up* from 12.8% to 12.9% (please see the chart below).




Source: BLS, TrendMacro calculations

- Be that as it may, the 7.6% unemployment rate keeps the trend on track to hit the Fed's Evans Rule target of 6.5% in November 2014 (please see the chart below).




Source: BLS, BEA, TrendMacro calculations

**Update to strategic view**
*Continued from first page*

… to a level not seen since 1979, the unemployment rate actually went up, not down, in March. The vacancy rate is lower than a year ago -- at a level historically associated with recession troughs, not expansions well under way.

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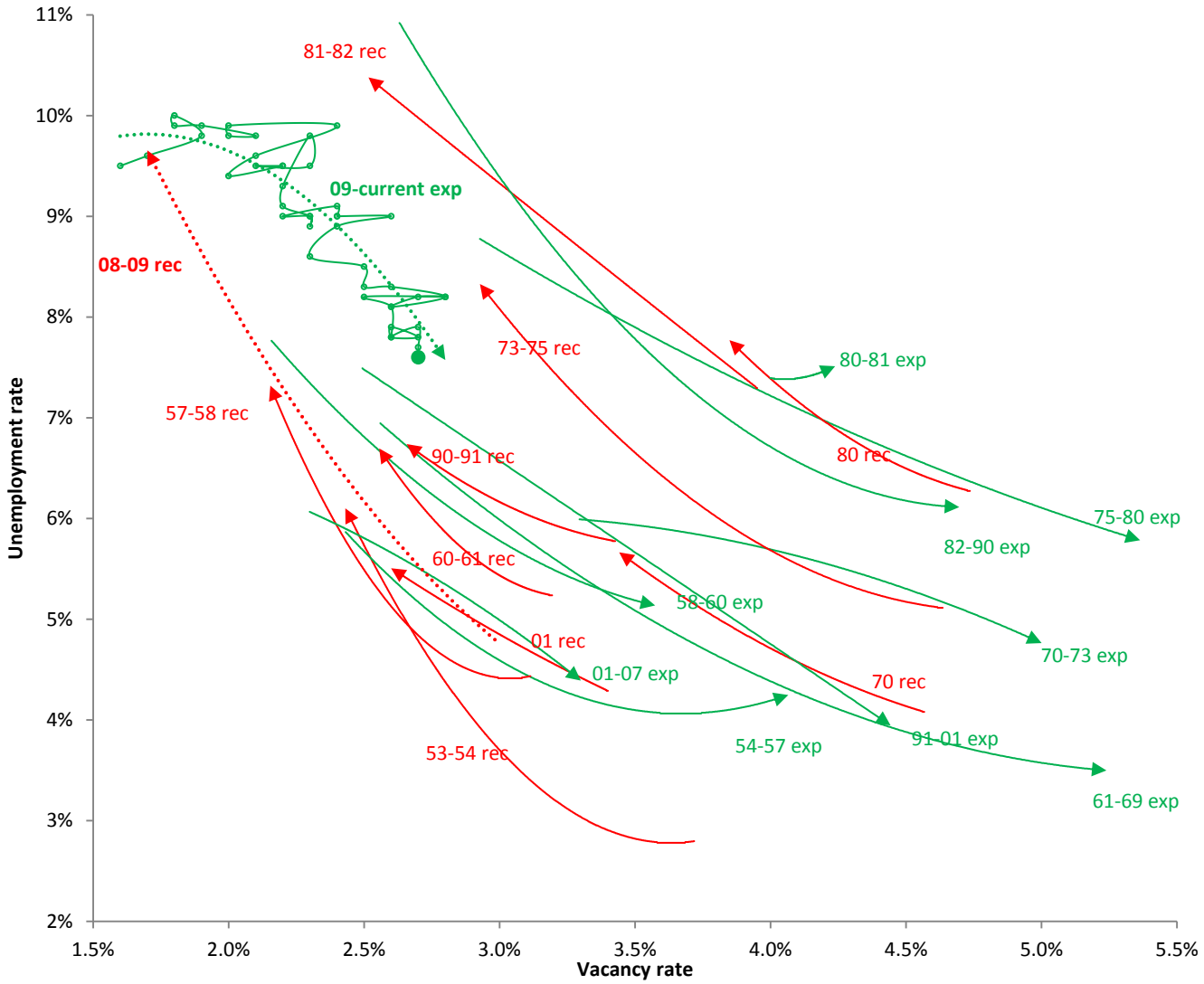
- The reality is that the economy is simply not recovering rapidly enough to produce employment opportunities. The "vacancy rate" -- an indicator of the number of job openings in relation to the size of the labor force, which is supposed to rise in a business cycle expansion -- stands now at 2.7%, *down* from 2.8% one year ago.
- Thus the so-called Beveridge Curve in this Not So Great Expansion remains an almost unique historical anomaly. *It is convex*, demonstrating that unemployment has fallen too quickly given the puny improvement in job opportunities (please see the chart below). The drop in unemployment is due only to the collapse in labor force participation. The proof: the vacancy rate today is so low that, by historical standards, it looks more like a recession trough than a recovery well into its fourth year.

**The Beveridge Curve** Polynomial trend (order 2), plus monthly plots for 09-current expansion

**Expansion** **Recession** **Latest data point**




Source: BLS, TrendMacro calculations

**Bottom line**

A huge miss in jobs this morning is proof that the US economy is not inflecting toward more rapid growth, and is indeed still mired in the Not So Great Expansion. The effects of accelerated income payouts last December have now dissipated, and true but shopworn narratives about a housing recovery and an energy boom aren't enough to compensate. Adjusting for the drop in labor force participation to a level not seen since 1979, the unemployment rate actually went up, not down, in March. The vacancy rate is lower than a year ago -- at a level historically associated with recession troughs, not expansions well under way.