

TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 3, 2013

Donald Luskin

Revisions to March's disaster are welcome, but the labor market remains stagnant at best.

[This morning's Employment Situation report](#) was surely better news than [last month's](#) (see ["On the March Jobs Report"](#) April 5, 2013). The upward revision of 50,000 payroll jobs for March cuts last month's big miss versus consensus estimates in half -- and the revision by 64,000 for February fixes it entirely. So Wall Street economists get to say, "See, I told you so." But today's reported net gain of 165,000 payroll jobs -- though 25,000 *more* than expected -- should by no means be taken as a signal that the US economy is upshifting out of the Not So Great Expansion following the Great Recession.

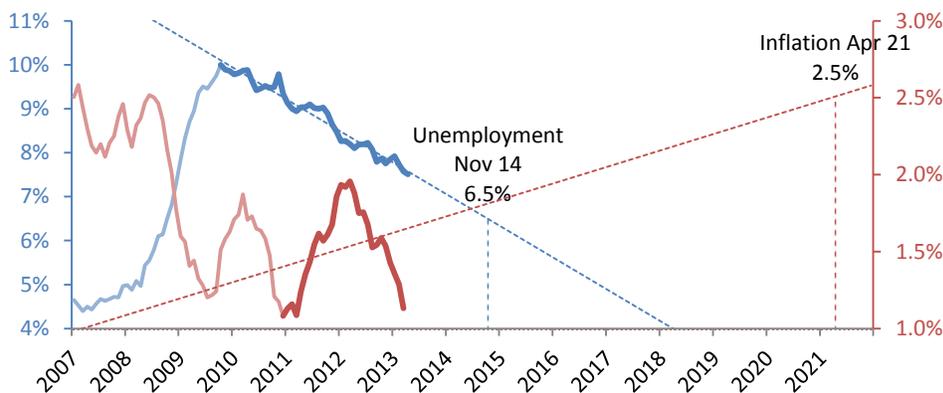
Let's start by looking at what was good in this morning's report.

- The downtick in the unemployment rate to 7.5% from 7.6% was, for once, a legitimate improvement.
- This is a slight improvement in the trend decline of the unemployment rate from its peak at 10.0%. It is sufficient to bring closer by one month the projected date at which unemployment will fall to 6.5%, thus triggering Fed rate hikes under the so-called ["Evans Rule."](#) It's now November 2014, in from December 2014 last month (please see the chart below).
- The improvement in the unemployment rate did not come at the expense of a shrinking labor force. Indeed, the labor force

Update to strategic view

US MACRO: Wall Street economists can celebrate that payroll revisions make up for their huge overestimate last month. And April's drop in the unemployment rate, while microscopic, is a small improvement versus trend and did not come at the expense of a shrinking labor force. Indeed, the labor force grew in April. But it grew only as much as the working age population, so the labor force participation rate remains unchanged at a low not seen since 1979. We see no reason here to think that the US economy is upshifting out of the Not So Great Expansion following the Great Recession.

— Unemployment rate — Core PCE inflation ... Trend from peak/trough



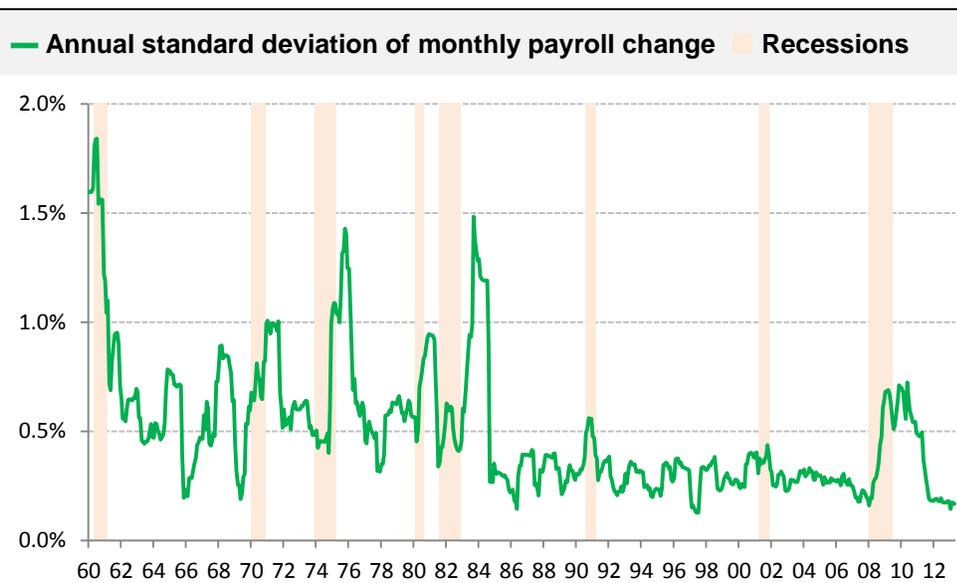
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Source: BLS, BEA, TrendMacro calculations

expanded by 210,000. This is the net of 293,000 new employed persons and 83,000 new unemployed persons -- so we can conclude that all new entrants to the labor force got a job.

- The average weeks of unemployment fell by half a week, and the percentage of long-term unemployment fell from 39.6% to 37.4%.

But please, curb your enthusiasm. This morning's report was better than last month's. But that doesn't make it sufficient to say that the economy is growing any faster than it has been over the last several mediocre years. Considering the still high level of unemployment, it is far too early for this business cycle expansion to have settled into a steady state of jobs gains like April's. In fact, judging by the volatility of changes in payrolls month to month, the US labor market is in its steadiest state in history (please see the chart below).



Source: BLS. TrendMacro calculations

- Last month's 165,000 new payrolls exactly matches the typical month's growth in the working age population.
- Unless the number of new jobs can exceed the number of new workers -- *that is, until the labor market becomes much more dynamic than today's* -- the unemployment rate cannot continue downward without a continuing deterioration in labor force participation.
- No, we didn't see further deterioration today. But the labor force participation rate remained unchanged at 63.3%, the lowest in this business cycle and the lowest since 1979. So under these conditions, the legitimate improvement in the unemployment rate could only be microscopic -- unrounded, only six hundredths of one percent.
- At the same time, in April hours worked fell, average weekly earnings fell, and the percentage of involuntary part-time workers rose.

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Bottom line

Wall Street economists can celebrate that payroll revisions make up for their huge overestimate last month. And April's drop in the unemployment rate, while microscopic, is a small improvement versus trend and did not come at the expense of a shrinking labor force. Indeed, the labor force grew in April. But it grew only as much as the working age population, so the labor force participation rate remains unchanged at a low not seen since 1979. We see no reason here to think that the US economy is upshifting out of the Not So Great Expansion following the Great Recession. ▶