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TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 1, 2016

Donald Luskin

Manufacturing payrolls fall, and unemployment ticks up, confirming Yellen's "uncertainty."

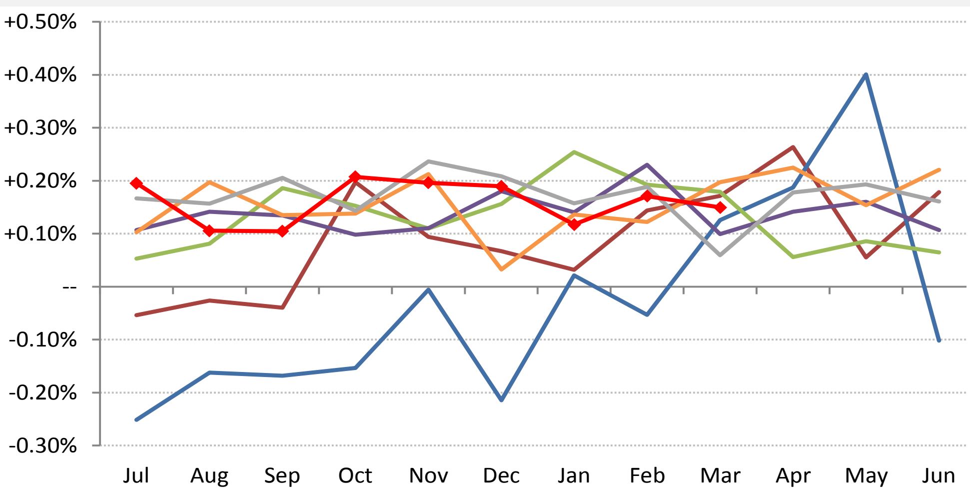
This morning's March Employment Situation report was a small headline beat, at 215,000 net payrolls versus 205,000 expected – with last month's larger beat (see "On the February Jobs Report" March 4, 2016) made even better with a small upward revision of 7,000.

- *But there's nothing here to cause Fed Chair Janet Yellen to recant her re-conversion to dovishness in her Tuesday speech* (see "Yellen Adds 'Uncertainty'" March 30, 2016).
- Manufacturing payrolls fell by 29,000, the largest drop since December 2009. The consensus had been expecting a gain of 2,000. This plays well into the new "uncertainty" paradigm Yellen unveiled Tuesday, reflecting what Yellen finally admits is the pernicious effect of oil prices falling too far too fast.
- Overall payrolls were nothing special – middle-of-the-pack growth within the context of the Not So Great Expansion following the Great Recession (please see the chart below).
- *And the internals of today's numbers ought to increase the Fed's confidence that Phillips Curve logic need not be a barrier to saying "one and done" on December's liftoff rate hike.*

Update to strategic view

US MACRO, US FED: A headline beat on payrolls, but really only a middling growth-rate, with a huge drop in manufacturing payrolls. The unemployment rate ticked up as the labor force expanded, and many new entrants don't have jobs. This confirms Yellen's new-found "uncertainty" doctrine, and takes pressure off Phillips Curve concerns that we are at maximum employment and at risk of an inflationary outbreak. Nothing here to keep the Fed from being "one and done."

Monthly payroll growth in post Great Recession expansion, starting July
2009-10 10-11 11-12 12-13 13-14 14-15 2015-16



Source: BLS, TrendMacro calculations

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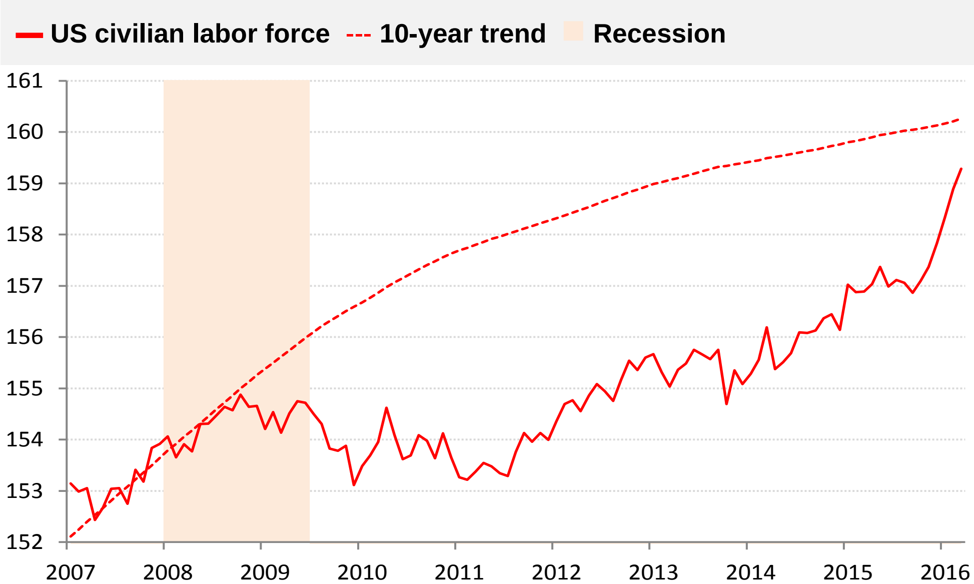
- Just by the headlines, the unemployment rate rose to 5% from 4.9%. So for even the most simplistic Phillips dead-enders, that takes a little pressure off.
- But beneath the headlines, there's better news. The unemployment rate only rose because 396,000 persons entered the labor force, and 30% of them don't immediately have jobs. So at the same time as the total number of *unemployed* persons rose by 151,000, the total number of *employed* persons rose by 246,000.
- Indeed, the labor force has begun expanding rapidly, rising by 2.5 million persons over the last six months (please see the chart below).



Source: BLS, TrendMacro calculations

- We believe this demonstrates that the headline unemployment rate has never been a sufficient statistic to capture the slack in the labor force, because it ignores the millions of drop-outs who are not statistically counted, but nevertheless represent a large pool of unemployment.
- *So even if the Phillips Curve doctrine is correct – that full employment leads to wage inflation which leads to consumer inflation – and we believe strongly it is not correct – we appear to be much further from full employment than the headline unemployment rate would seem to indicate.*

Bottom line

A headline beat on payrolls, but really only a middling growth-rate, with a huge drop in manufacturing payrolls. The unemployment rate ticked up as the labor force expanded, and many new entrants don't have jobs. This confirms Yellen's new-found "uncertainty" doctrine, and takes pressure off Phillips Curve concerns that we are at maximum employment and at risk of an inflationary outbreak. Nothing here to keep the Fed from being "one and done."

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