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ECONOMIC TALKING POINTS

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A Highly Dubious Employment Report

Don't succumb to the temptation of over analyzing November's job numbers. This is one economic release people ought to just file away. Despite comments by the BLS that "Hurricane Sandy did not substantively impact the national employment and unemployment estimates," there is certainly a lot to indicate otherwise.

For example, one important statistic for November that is not in the actual report but can be found online (www.bls.gov/web/empsit/cesregrec.htm) is the percentage of responses the Labor Department got back in time to compute last month's preliminary jobs report. The agency notes it managed a collection rate of 76.2% of responses in November! Really...76.2%? Mind you, this is a greater rate than seven other months this year! Indeed, it's the highest collection rate for a preliminary report on November **EVER ---** and showed that job growth last month was far greater than consensus forecasts.

Quite strange, I have to say, especially since many other high-frequency indicators, like the weekly claims for unemployment insurance, the ISM employment report for both manufacturing and services, the Conference Board's Help Wanted Online numbers, and the weekly retail sales reports by (the International Council for Shopping Centers) revealed an economy hurt by hurricane Sandy.

Second, while most news reports on Sandy focused on the damage it did to New Jersey and New York, the Commerce Department said that nearly half the country (24 states) was actually affected by the storm. Moreover, though the storm struck on October 29th, the economic consequences spilled well into November. In New York alone, it caused nearly 2.2 million power outages and impacted 260,000 businesses. That's more than what Katrina and Rita caused when it ravaged Louisiana in 2005.

Third, in addition to Sandy, we suspect other events played havoc with the statistics. A divisive presidential campaign finally came to an end last month and CEOs began pondering what implications the electoral outcome has for the economy. Then there is the lack of progress to avert a fiscal cliff. How do you justify beefing up employment when the risk of recession in 2013 looms larger by the day?

Simply put, there's a lot of noise in the November jobs report. The jump in payrolls by 146,000 last month was the biggest monthly leap since August. That will likely be revised down as more complete information comes in. The BLS just sliced off 49,000 job gains from their initial estimate of the two previous months.

Chart 1. Unemployment rate, seasonally adjusted, November 2010 – November 2012

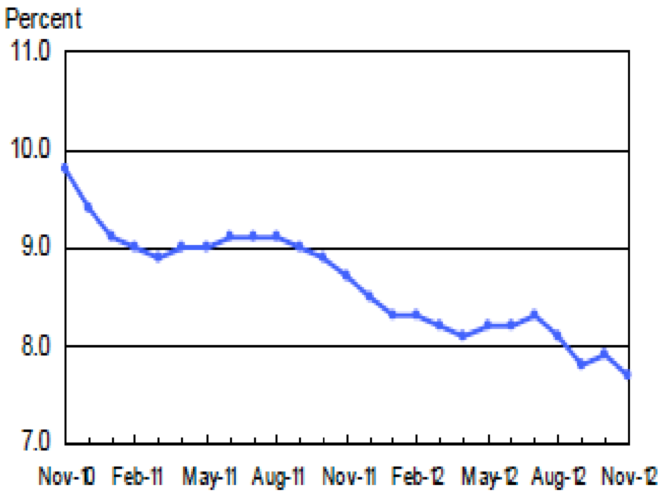
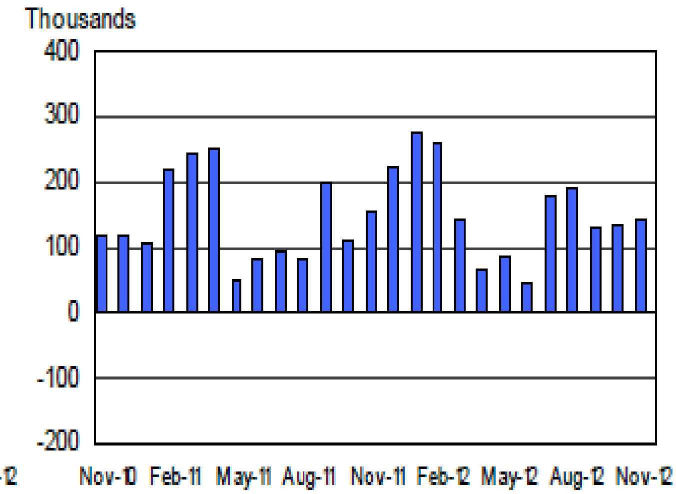


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, November 2010 – November 2012



And while it is great to have the unemployment rate drop to 7.7%, its lowest in nearly four years, odds are it too will bounce back up in the months ahead. The reason is that if the US economy does fall off the fiscal cliff, the pace of hiring will significantly trail the number of new people entering the workforce. Thus, more bad news to come on the jobs front. On the other hand, if Washington succeeds in coming up with a budget accord, the economy is likely to take off in 2013. Discouraged workers who have been jobless are going to resume seeking employment as economic conditions brighten. This will swell the number of people in the labor force seeking work and also push the unemployment rate briefly higher. But this time, the momentary upturn in joblessness is a positive development because the unemployed now see more opportunities and are taking action to find work.

Bottom line:

Some analysts may still dive into the latest job report and endeavor to glean fresh clues on the economic outlook. Good luck to them. As far as we are concerned, about the best thing that can be said is that November's employment story should not fundamentally alter anyone's view of the macroeconomy. Business activity is essentially on hold. We expect the next three months will produce a cleaner, more revealing set of data points on jobs and the economy.

Our contention continues to be that the U.S. is on the precipice of much stronger economic activity and job growth --- IF we can avoid both the fiscal cliff and another acrimonious debate on raising the debt ceiling. House Speaker John Boehner's comments this morning were still not encouraging. But talks are continuing. Clearly the next few days will be critical for the US and international economy, and by extension global financial markets.
