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ECONOMIC TALKING POINTS

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A Bleak Jobs Report That Deserves Skepticism

Breath. Breath. Breath. The September employment report was something of a shocker in how weak it portrayed labor market conditions. The disappointing payroll numbers last month (officially up by 142,000; the market expected 203,000) and the downward revisions for July and August (by a total of 59,000) caught just about everyone off guard, including us. Other data points in the release were dismal too. The average workweek fell one-tenth, to 34.5, and average hourly earnings dropped by a cent to $25.09, which suggests fewer funds for consumers to spend. So, yes, the September employment report was bleak and suggested the U.S. economy was decelerating sharply.

Chart 1. Unemployment rate, seasonally adjusted, September 2013 – September 2015

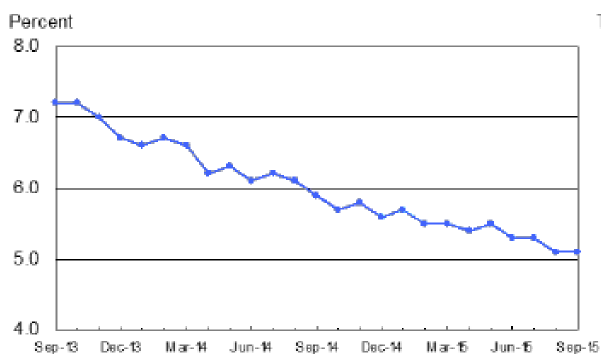
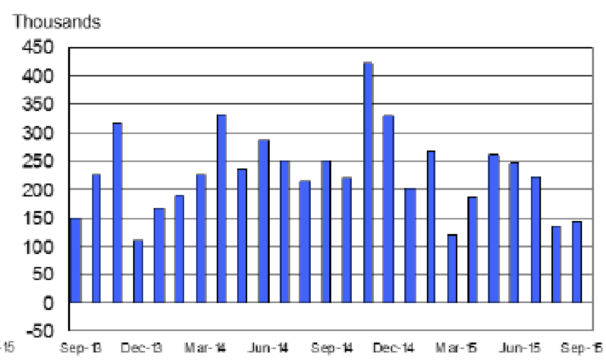


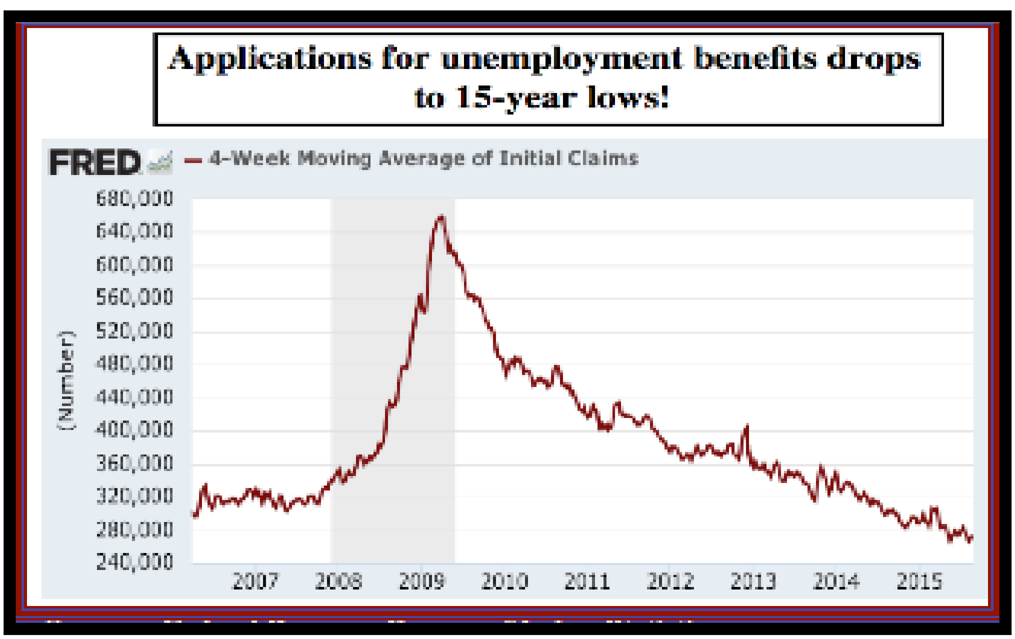
Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, September 2013 – September 2015



But something is clearly amiss here too. There appears to be a glaring inconsistency among the different gauges that measure the health of the job market. So before anyone rushes to any judgment based on September's employment numbers, let's step back and see whether other metrics on jobs and the economy support --- or --- fundamentally disagree with the latest job statistics. The goal is to seek out some pattern, some corroboration among the indicators that gauge business activity.

For example, should we utterly disregard the significance of the Job Openings and Labor Turnover (JOLT) survey, which is also published by the BLS. Though the government may slightly tinker with that series too, the 5.8 million positions firms are seeking to fill will remain the most ever recorded. When companies post that many jobs, it undermines the argument that the job market has fundamental deteriorated.

Secondly, the weekly number of new applications for unemployment benefits, which has an excellent track record as a leading indicator of labor market conditions, is hovering at 15 yr lows! So here's another metric that departs from September's employment report. We believe the drop in claims for unemployment benefits and the strong JOLT numbers are not consistent with the grim headlines from today's jobs release.



And let's not summarily wave off the ADP Employment Report, which looked at its considerable database of private sector job creation and concluded that businesses hired 200,000 people last month. Or how about the Consumer Confidence index by the Conference Board, a series well known for its sensitivity to labor market conditions. Confidence leaped in September to its second highest in 8 years!

Moreover, if employment was truly weakening, it's hard to reconcile the rush by consumers to buy cars and light trucks at better than an 18 million unit rate last month, the strongest in a decade. Then there's the biggest expense of all for Americans--- housing. Recent data show new home sales jumped to a 7 yr high and existing home purchases were the best in 8 years.

There were even diverging trends within the September employment report itself. The number of part time workers stuck in their positions because they couldn't find suitable full time employment plummeted last month to a 6.04 million, the lowest in 7 years. Similar improvements were seen in the length of time Americans were out of work. The average number of weeks unemployed dropped to 26.3, the fewest since August 2009, and the median duration slid to 11.4 weeks last month from 12.1 in August and 13.4 weeks at the start of the year.

These are just some of the reasons why we should not accept the headline numbers in this employment release as having divine legitimacy over all other economic indicators. Smart analysis and forecasting requires monitoring many economic signals and uncovering some uniformity in the data.

So what impact will all this have on monetary policy?

There's less to speculate now about the October 27- 28th meeting. While we are highly skeptical of the headline numbers in the September job's report, it probably aroused enough concerns for the Fed to punt this month and keep rates where they are. However, we still view a better than even chance they will lift rates at the December meeting once the dust settles and more data confirms the economy to be in better shape than the latest jobs report suggests. Remember, the Fed would prefer not to initiate the first cycle of monetary tightening in 10 years smack in the middle of a politically charged presidential campaign. The last thing Fed policymakers want is to have their decisions on interest rates dragged into a highly partisan election debate.

We believe their inclination is to raise rates in December and then mostly duck for cover in 2016.

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