
Weekly Market Flash

Popular Data, Invisible Data

May 5, 2017

It's Jobs Friday, always a fun day for financial pundits as they craft ways to put a defining, click-friendly metaphor on the latest signal of health (or lack thereof) in the labor market. This month's winning metaphor is that staple of kids' birthday parties, the bouncy house. "US jobs growth bounces back" says the Financial Times. Adam Samson, the FT reporter whose byline is attached to that article, appears to be on the same cosmic wavelength as Patricia Cohen of the New York Times, whose lead headline today reads – wait for it – "U.S. Job Growth Bounces Back". The style manuals of the FT and NYT – U.S. or US? Jobs plural or singular? Caps or no caps in the headline? – were on full display. Over at the Wall Street Journal they seem to have quietly retired the "Jobs Friday Live Blog" of times past, but the WSJ's team of economists nonetheless has a massive "Everything You Need to Know" section on the April jobs report. Indeed, to the credit of those featured, that is one exhaustive parsing of the BLS release.

If Productivity Fell and Nobody Heard It, Did It Still Fall?

Not every macroeconomic headline gets the popular-kid treatment of the monthly BLS release, of course. Consider the financial headlines just yesterday, May the Fourth (insert nerdy Star Wars reference here). Yesterday was Productivity Thursday. Ha-ha, of course it wasn't, because there was basically no coverage of the only economic data point that actually has the capability to deliver sustained growth. What did yesterday's headlines focus on? Postmortem commentary on the FOMC's meeting pointing to a June rate hike...the final pre-election debate between Macron and Le Pen over in France...the sausage makers on Capitol Hill hastily throwing together a gambit on the 18 percent of the US economy represented by health care. Important stories, all. Meanwhile, nonfarm labor productivity fell 0.6 percent for the first quarter, well below the consensus expectation of 0.1 percent and yet another lackluster contribution to a chronically underperforming long term trend.

Stop Us If You've Heard This One Before

Everyone talks about growth; the notion that the economy will be stronger in the future than it is today is literally the single animating notion behind the capitalist impulse to defer the benefits of a dollar today for the payoff of that dollar's growth over a defined period of time. But talking about growth without focusing on productivity is like talking about why you just came down with a nasty cold without considering the fact that you recently went out for a walk in the snow barefoot, in shorts and a t-shirt. That is what makes the absence of Productivity Thursday so conspicuous, and why the obsessive focus on monthly payroll gains appears so misplaced.

If anything, the leading number of Jobs Friday should be the labor force participation rate. That nudged down to 62.9 percent from last month's 63 percent. It remains far below the peak of more than 67 percent reached at the end of the 1990s. Why is this number important? All together now...long term growth is a function of three variables: overall population growth, growth in the number of people working as a percentage of total population, and productivity (how much gets produced for every hour of effort invested).

For most of human history the only variable that mattered was population growth. If that were still true, we would have to content ourselves with annual GDP growth around 0.7 percent, which happens to be the most recent annual rate of population growth. We have little reason to believe that labor force participation is going to improve anytime soon: both demographics and job-replacing technology will see to that. Which leaves productivity, and which is why Productivity Thursday deserves its rightful place at the cool table in the cafeteria of macroeconomic data. Yes, those payroll numbers are useful. But with the unemployment rate at 4.4 percent one might wonder why participation remains stagnant and wage growth is still relatively subdued. Productivity Thursday could help shed some light here.

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