

Focus on Data, Not Spin

In 2009, after overly strict mark-to-market accounting rules were altered, we said the Financial Crisis was over. It was hard to get our voice heard, though, because both sides of the political aisle were busy saying the economy stunk. Political liberals tried to use the crisis to grow the government and increase bank regulation. Political conservatives said it was a “sugar high” and that President Obama was going to cause a Depression. It was all spin, all the time.

That’s what it seemed like last Friday, when the September jobs report was spun into terrible news.

Yes, nonfarm payrolls rose an underwhelming 194,000 in September, well below the consensus expected 500,000. Meanwhile, the labor force (the number of people working or looking for work), declined 183,000. Some liberals seized on these figures to say (1) the expiration of bonus unemployment benefits didn’t boost jobs like free-market supporters claimed, (2) women are hesitant to get jobs because of COVID and kids at home, and (3) the economy needs more stimulus.

But the jobs report only captured the first couple weeks of expired benefits, and, as a result, it’s too early to tell the real impact of the expiration. Many recipients may have piled up enough savings to be patient in re-entering the labor force. Meanwhile, vaccines, perhaps boosters, and waning COVID case counts should help more sectors return to normal. And if the amount of stimulus applied to the economy already hasn’t worked, what makes anyone confident even more stimulus would work? Wouldn’t it call for a different strategy entirely?

The bottom line is that the employment report really wasn’t that bad. It wasn’t great, but it wasn’t awful, either.

Payrolls were revised up a combined 169,000 for prior months. Much of the weakness in September itself was due to public school jobs that are still not back to normal due to COVID. The civilian employment measure of job creation was up a healthy 526,000. And, most importantly, the number of hours worked rose 0.8% in September, the equivalent of more than one million jobs. In addition, wages per hour rose another 0.6%.

At this point, we expect a much stronger employment report for October. Supply chain problems, vaccine mandates at private companies, kids not being back in school...all of this...mean a more volatile economic environment, but easy money from the Fed and less fear of COVID are continuing to boost economic activity. Yes, some disappointing numbers, but the economy has not ground to a halt.

Right now, third quarter real GDP growth looks like it’s coming in soft – at around a 2.0% annual rate, maybe below – and that report arrives just six days before the next Fed announcement. But we also expect both faster job growth and real GDP growth in the fourth quarter. As a result, Jerome Powell is likely to follow through on his intention to start tapering in November. This may cost him his job, but even if the Fed does taper it will still be easy.

As it’s happened in the past, economic reports have become a political football, with each side trying to use the data to score points for their side, greasing the wheel of politics to try to get policy or elections moving in their preferred direction. What’s important for investors is to focus on the data and underlying economic forces, not the narrative driven by politics.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-13 / 7:30 am	CPI – Sep	+0.3%	+0.3%		+0.3%
7:30 am	“Core” CPI – Sep	+0.2%	+0.2%		+0.1%
10-14 / 7:30 am	Initial Claims – Oct 9	320K	320K		326K
7:30 am	PPI – Sep	+0.6%	+0.5%		+0.7%
7:30 am	“Core” PPI – Sep	+0.5%	+0.4%		+0.6%
10-15 / 7:30 am	Retail Sales – Sep	-0.2%	0.0%		+0.7%
7:30 am	Retail Sales Ex-Auto – Sep	+0.5%	+0.5%		+1.8%
7:30 am	Import Prices – Sep	+0.5%	+0.3%		-0.3%
7:30 am	Export Prices – Sep	+0.7%	+0.6%		+0.4%
7:30 am	Empire State Mfg Survey – Oct	25.0	27.3		34.3
9:00 am	Business Inventories – Aug	+0.6%	+0.6%		+0.5%
9:00 am	U. Mich Consumer Sentiment- Oct	73.5	72.0		72.8