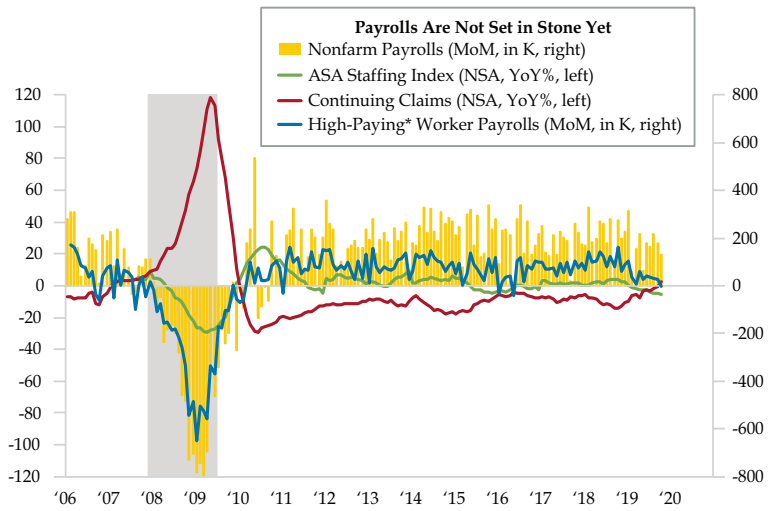
The Daily Feather

Rumors of My Birth Are Not Greatly Exaggerated

VIPs

- The not seasonally adjusted BLS birth/death model is often misrepresented as the 'culprit' for exaggerated strength in payrolls given critics compare it to the seasonally-adjusted headline number; that said private-sector benchmark revisions in the year to March 2019 of -0.4% are outside the +/- 0.1% band classified as statistical noise meaning births of 274,000 overstated strength
- Continuing jobless claims provide hard data, and are much more reliable than payrolls which are subject to long-lagged revisions; claims fell (good) at a recent peak rate of -14.2% last September, and have since risen (bad) by 2.5%, the first increase of the current expansion
- ASA's nine-month deterioration depicting falling temporary employment corroborates the continuing claims signal; high-paying jobs for workers also contracted in October, which will hit spending given the top 40% of earners account for more than 60% of consumption



Source: ASA, BLS, U.S. Department of Labor. Recession shaded. *Excludes retail, education and health services, leisure and hospitality and "other" services.

Paul Revere did not ride into the Massachusetts night screaming, "The British are coming!" Betsy Ross did not design the U.S. flag though she did helpfully suggest five-pointed stars over those with six points for ease of construct. The original cowboys donned derby hats, not Stetsons, which weren't even in existence until 1865. The Declaration of Independence was ratified on July 4, 1776 but wouldn't be signed until August 2nd of that year. And the New York suicide rate fell following the stock market crash of 1929. There were two prominent Wall Street figures who took their lives, but there was no jumping out of windows. And that's just the short list of Americana myths.

Bearish investors also cleave to a myth, one they likely will for all time – the fabled birth/death model. Every time there's a jobs report which surprises to the upside when it's expected to disappoint, you can set your watch to how long it takes for the birth/death model to be trumped out to take the blame. Friday was no exception. The most strident devotees cumulated the additions to further exaggerate payrolls mythical strength over the past year. There's just one problem. They're monkeying with the wrong math.

It's important to understand the intent of the number crunchers at the Bureau of Labor Statistics. Measuring the number of jobs created at new firms and companies that shutter operations is an exact exercise once a year when tax records are updated. So they created the birth/death model to estimate it based on the trends of the past five years. Cyclical inflection points, however, negate the efficacy of those historic averages, which is where we find ourselves today given private-sector benchmark revisions in the year to March 2019 of -0.4% are outside the +/- 0.1% band classified as statistical noise. This dynamic renders October's addition of 274,000 via the model overly optimistic.

But here's the key that most miss – you can't simply subtract that number from the 128,000 that was reported for the month, a figure that's reported on a seasonally adjusted basis given the birth-death factors are not seasonally adjusted. The mistake, however, is made with regularity by angry masses of bears who want a simple scapegoat to explain away the data coming in stronger than forecasts.

More to the point, why leave it at that when there are alternative hard sources of data that can better reveal the truer underlying trend in payrolls well before revisions are reported this coming February.

Continuing jobless claims (the red line) can get you there. This is hard data representing those who are currently receiving unemployment benefits, and they're reported weekly. As you can see, after troughing at a recent low of -14.2% last September, continuing claims are on the rise – they're up 2.5%, **their first increase in the current cycle**.

In the last cycle, claims first rose in February 2007, a point at which we knew the economy was slowing as is the case today. But nonfarm payrolls did not fall until July of that year nor did they stay in the red until February 2008 when we were two months into recession. This is why economists classify payrolls as a lagging indicator.

As you can see, the ASA Staffing Index doesn't have a history that stretches back to the years that preceded the last economic contraction. In fact, it debuted in July 2007, when nonfarm payrolls first printed negative warning recession was imminent. The index then simultaneously peaked in December 2007 with the highest nonfarm number that would be seen until March 2010.

If it wasn't for the corroborating continuing claims signal, we'd be reluctant to assign the term "definitive" to the ASA's recent deterioration. While temporary employment has been declining for nine months, it lingered in contraction for an even longer stretch in the 13 months through May 2016, the last industrial recession.

Let's let the last line, the blue line – high-paying job creation among workers (as opposed to managers) – be the deciding factor, bearing in mind one Jerome Powell has hung his hat on consumption sustaining the current expansion. As a reminder, we define "high-paying" as jobs excluding Retail, Education and Health Services, Leisure and Hospitality and "Other" Services.

Presumably, consumption hinges on income and confidence in its durability, which thereby encourages households to take on debt, the other critical support that underpins spending. And that precondition relies on high-paying job creation given the top two quintiles of job earners account for more than 60% of consumption, not just retail sales.

The current cycle has featured exactly three months in which high-paying jobs among workers have contracted – January and May 2016 and October 2019. You might agree the economy then and now is in different places, which we hope dispels the myth of it being in a "good place."