NFP Instant Reaction – A Universally Weak Report

Maybe as we dig through the details, we will find something "strong" in this report, but it seems weak across the board.

Jobs coming in at 150k is bad enough. The report also showed **101k of negative revisions**. Why do we torment those economists (who made predictions which looked wrong at the time of the release because their estimates were supposedly too low) only to find out 2 months later that they were probably right? The private sector number was below 100k and manufacturing lost a considerable number of jobs, despite reshoring, etc. However, the strikes likely impacted that number.

Hourly earnings were lower. However, they were in line with some other estimates yesterday that indicated downward wage pressure (despite the high-profile union deals).

The **unemployment rate** ticked up to 3.9% while the **participation rate** declined a touch – exactly the response that you **do NOT want to see**. Fewer people were looking for work and the unemployment AND underemployment rates nudged higher. This was because the **Household Survey** indicated a job loss of 348k, resulting in net job losses over the past 3 months.

The rate of hours worked, which has not really supported the strength in prior job reports, inched down as well.

I know that weather cannot be an excuse this time. The strikes could have had an impact, but I find it difficult to believe that the impact would be so big as to drag down the entirety of this report (maybe just the manufacturing side, but not the report as a whole).

While the margin for error of both reports is obscenely high relative to how they are presented (BLS margin of error), I'm starting to wonder if the Household actually reflects reality better since it asks potential employees, not employers. The one argument that I've heard is that if someone is laid off (but receiving severance pay), the company reports them as employed, but the employee considers themself unemployed. To save you time on the link, the margin for error to be "statistically significant" is 130k for the Establishment and 600k for the Household. With the lower response rates for the Establishment, should the margin for error there be even larger? In any case, why don't we just get the raw data and let anyone (who wants to) use AI or their own algos to do all the adjustments. Maybe we'd get some interesting data that way.

Since I mention response rates (BLS), the Current Employment Survey Statistics response rate was 32.5% for the July survey (last one they published). That rate was 67% as recently as December 2019! If I'm sending out a survey and **the response rate is cut in half in less than 4 years** (after being stable for a decade), I'd question the validity of the survey and the responses.

Sorry if I got a bit wonky at the end, but "garbage in, garbage out" is one of the tenets that I live by. This data, between the margin for error issues and the response rate, seems fraught with garbage, despite being one of the biggest data releases for the market (and companies) every month.

Bottom Line

Rates rally from here, sub 4.5% on 10s and we will see whether any shorts (a bunch got reset post-Fed) get stopped out.

Risky assets should rally for now, but recession chatter will act as a dampening effect (along with the large surge that we've already seen this week).

I really like top quality IG bonds here on a spread basis. I think that investors, as they figure out how "safe" Treasuries are, will start being more overweight top quality IG bonds (over Treasuries), which will help spreads.

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