Jobs Report Preview: Good News Ahead?

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by Brad McMillan
of Commonwealth Financial Network

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Tomorrow, we get the big one, the most (in my opinion) significant economic report of all: the jobs report. So, what should we expect?

Job growth may beat expectations

Recent reports have been lumpy, but most economists expect good news from tomorrow's report. At the end of last year, job growth dropped from 193,000 in September to 152,000 in October (on the GM strike), only to reverse up to 256,000 in November when the GM workers returned. December showed growth of 145,000, which was not bad but down from previous months after accounting for the GM strike. The real question is whether job growth will pick back up above that level.

Economists think it will, with an average number of 160,000 for January. This result would be well up on December, although below the six-month average of 190,000. If job growth comes in at that level, it would still indicate a slowdown over the end of last year.

Chances are, however, that we will see more jobs created than expected. The recent ADP jobs report jumped from 199,000 to 291,000 in December—suggesting a surge in hiring. Jobless claims have been dropping, as have announcements of job cuts. Surveys of business confidence have also indicated faster hiring. Finally, hiring for the decennial Census started last month, which should help the numbers. Overall, a result in line with the six-month average, around 180,000–190,000, seems very probable.

Slowdown passing?

If we do get that number, it will be one more piece of evidence that the slowdown at the end of last year may be passing. The other job numbers, if they come in as anticipated, would also support that idea. Unemployment, for example, is expected to stay at the current 3.5 percent, a very low level. The average hours worked per week should tick up, another positive sign. Finally, monthly wage growth is anticipated to rise back to 0.3 percent, another positive.

On balance, if the report comes in as expected, it will be good news for the economy and markets, as it will indicate continued growth after a slowdown last year. If it comes in better than expected? The news will be even more positive, as it will be a sign that growth is picking up again.

One thing to watch . . .

The annual benchmark revisions to the establishment survey, which is what is used for these employment numbers, are one thing we should be keeping an eye on. We already know that the level of jobs in March 2019 will be revised downward by 501,000. Plus, there is a possibility there may be larger downward revisions to more recent months, according to Capital Economics. Although this revision will not necessarily change the monthly and annual changes in a meaningful way, it may well do so. One of the more likely scenarios is that last year's job growth will be revised downward significantly, and the recent pickup will be shown to be even stronger. This scenario would not change the story, but it would provide more context. We don't know yet, but this will be something to watch.

What really matters

Tomorrow, use the headline numbers for a good indication of where we are today. Look at the revision, but be mindful of the fact that although it may change the story of recent history, the most recent numbers are what really matter and what should affect markets. And those look likely to be good.

Brad McMillan is the chief investment officer at Commonwealth Financial Network, the nation's largest privately held Registered Investment Adviser-broker/dealer. He is the primary spokesperson for Commonwealth's investment divisions. He is also the author of Crash-Test Investing, a must-read primer for Main Street investors seeking to help insulate their portfolios against a market crash. This post originally appeared on The Independent Market Observer, a daily blog authored by Brad McMillan. Forward-looking statements are based on our reasonable expectations and are not guaranteed. Diversification does not assure a profit or protect against loss in declining markets. There is no guarantee that any objective or goal will be achieved. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance is not indicative of future results.