Is the Payroll Employment Report Accurate?

August 4, 2020
by Jeff Miller
of NewArc Investments, Inc.

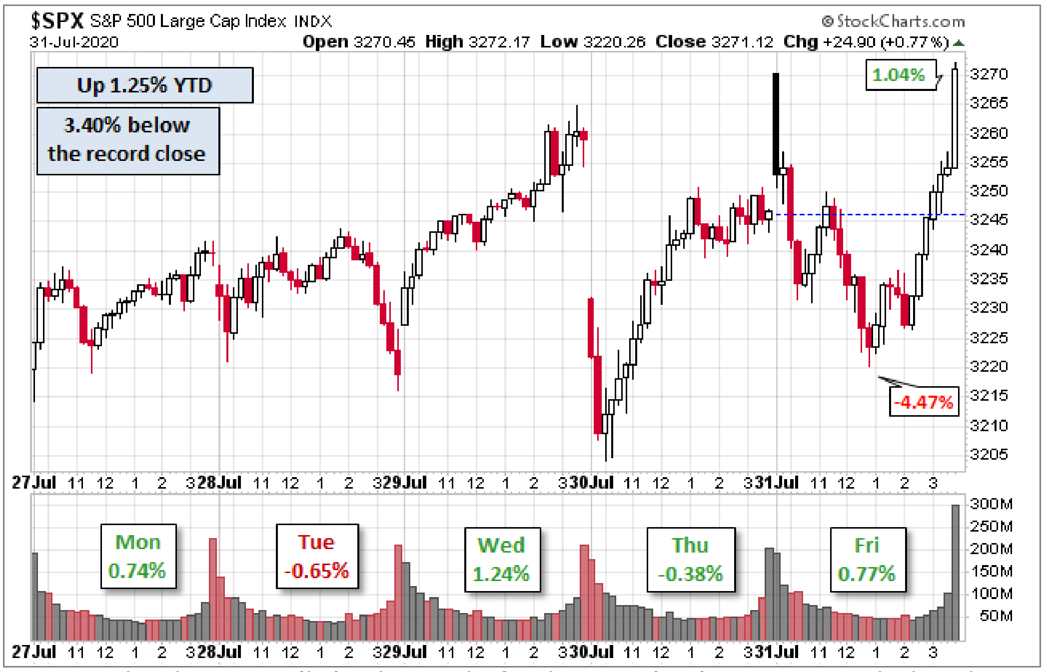
It is a big week for economic data. There are many reports with the most attention on Friday's Employment Situation data. We will also get auto sales, the ISM manufacturing and non-manufacturing indexes, construction spending, and factory orders. Weekly jobless claims continue to attract great interest and should. The corporate earnings story hits a peak for the season.

Many have been reassured by the job growth in the payroll employment report. It is viewed as the most important by the investment and economic communities and has earned a status as the "official" read on employment. We should be asking:

Is the payroll employment report accurate in these tumultuous times?

The Story in One Chart

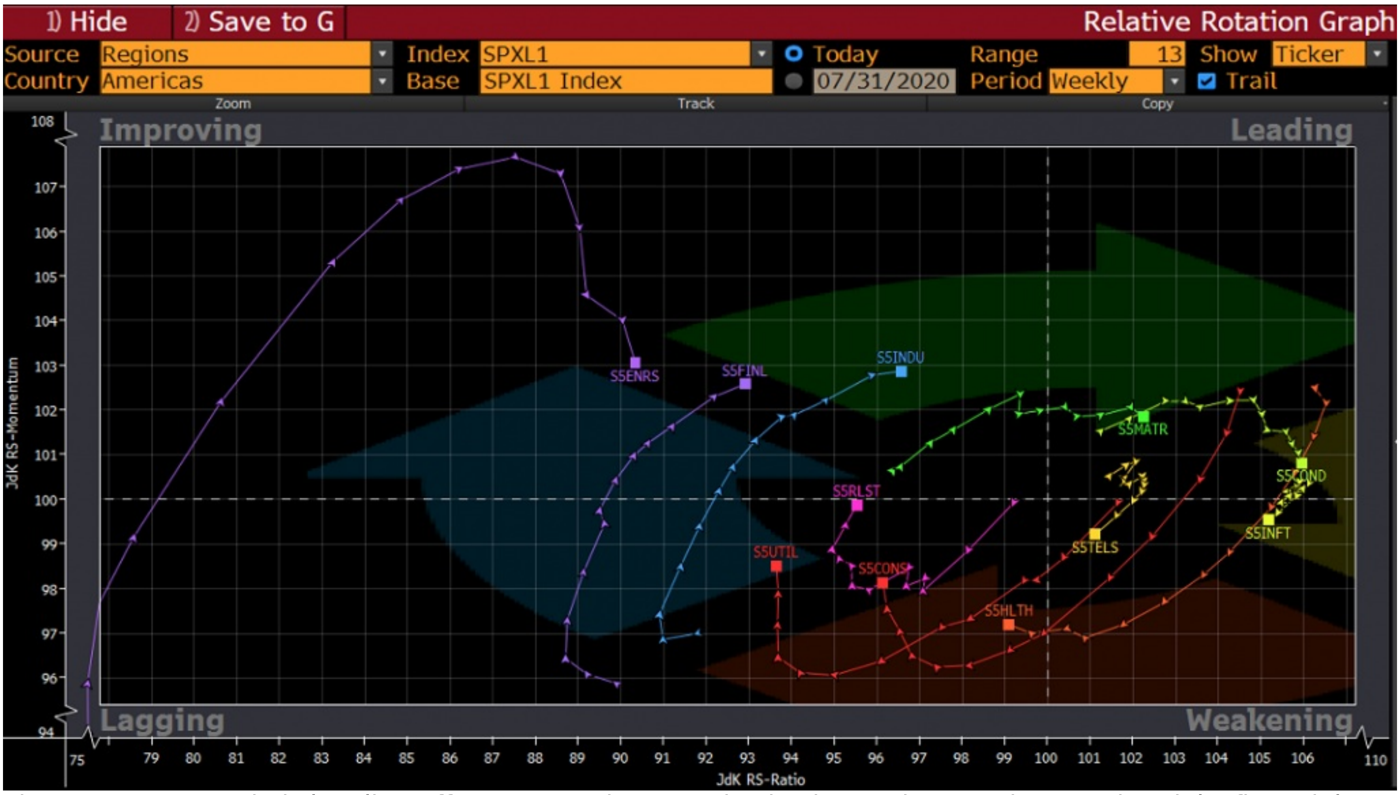
I always start my personal review of the week by looking at a great chart. This week I am featuring Jill Mislinski's version. Her chart combines much of what interests us in one picture.



Once again, there was little change in fundamental values or news during the week.

The market gained 1.7% in what looks like a choppy week. Actually, the trading range was only 1.8%, much lower than recent weeks. This explains the lower VIX, which you can track in my weekly Indicator Snapshot updates (below).

The weekly sector chart shows the sources of the action.



The “recovery” trade is leveling off even more but remains in “improving” territory. Industrials, financials energy and materials are all part of that group. Defensive sectors like utilities, consumer, and health, continue to improve.

Personal Note

Last week I indicated that I planned to take the weekend off. In a sense, that is true. Instead of weekly news I am writing a more comprehensive story about the payroll employment report. More soon.

Noteworthy

Passed on to me from Twitter by a reader who knew I would love it. I hope you will, too.

The Week Ahead

© 2021 Advisor Perspectives, Inc. All rights reserved.

We would all like to know the direction of the market in advance. Good luck with that! Second best is planning what to look for and how to react.

Briefing.com has a good U.S. economic calendar for the week. Here are the main U.S. releases.

Week of August 03 - August 07

Date	ET	Release	For	Actual	Briefing.com Forecast	Briefing.com Consensus	Prior
Aug 03	00:00	Auto Sales	Jul		NA	NA	2.14M
Aug 03	00:00	Truck Sales	Jul		NA	NA	7.45M
Aug 03	10:00	Construction Spending	Jun		2.0%	1.3%	-2.1%
Aug 03	10:00	ISM Manufacturing Index	Jul		53.0	53.4	52.6
Aug 04	10:00	Factory Orders	Jun		5.0%	5.2%	8.0%
Aug 05	07:00	MBA Mortgage Applications Index	08/01		NA	NA	-0.8%
Aug 05	08:15	ADP Employment Change	Jul		1.200M	1.600M	2.369M
Aug 05	08:30	Trade Balance	Jun		-$49.7B	-$49.3B	-$54.6B
Aug 05	08:30	Adv. Intl. Trade in Goods	Jun		NA	NA	-$74.3B
Aug 05	08:30	Adv. Retail Inventories	Jun		NA	NA	-6.1%
Aug 05	08:30	Adv. Wholesale Inventories	Jun		NA	NA	-1.2%
Aug 05	10:30	EIA Crude Oil Inventories	08/01		NA	NA	-10.6M
Aug 06	08:30	Initial Claims	08/01		1.460M	1.400M	1.434M
Aug 06	08:30	Continuing Claims	07/25		NA	NA	17.018M
Aug 06	10:00	ISM Non-Manufacturing Index	Jul		54.6	55.0	57.1
Aug 06	10:30	EIA Natural Gas Inventories	08/01		NA	NA	+26 bcf
Aug 07	08:30	Nonfarm Payrolls	Jul		1.300M	2.000M	4.800M
Aug 07	08:30	Nonfarm Private Payrolls	Jul		1.200M	1.900M	4.767M
Aug 07	08:30	Unemployment Rate	Jul		10.7%	10.5%	11.1%
Aug 07	08:30	Avg. Hourly Earnings	Jul		-0.9%	-0.7%	-1.2%
Aug 07	08:30	Average Workweek	Jul		34.4	34.4	34.5
Aug 07	10:00	Wholesale Inventories	Jun		-1.9%	-2.0%	-1.2%
Aug 07	15:00	Consumer Credit	Jun		$20.0B	$15.0B	-$18.2B

Next Week's Theme

There is something troubling about the economic data. There are small reversals in many indicators. These are often better than economic forecasts. The most important, and perhaps most suspect, is the payroll employment report. It is a time of economic tumult.

Is the payroll report still accurate?

I do not think so. I will devote time to a special report on this important topic. I have written hundreds of posts on payroll employment, but something is different. It warrants analysis.

I have a few other conclusions in today's Final Thought.

Ideas for Investors

I have switched the investor section to a separate post. I hope to run it nearly every week, calling it Investing for the Long Term. In the latest edition I show how to interpret the advice of "experts" using my matrix approach. In each case I added a comment about how I might use the idea and also related it to our Great Reset Wisdom of Crowds surveys. I hope readers will find this valuable and that my colleagues will consider the Great Reset Matrix as part of their selection process.

A Personal Favor

Please consider joining the Great Reset group. You will get updates about what is being studied and can join

© 2021 Advisor Perspectives, Inc. All rights reserved.

in the process. There is no charge and no obligation, but I hope you will join in my Wisdom of Crowds surveys. I need more wise participants! The latest survey results are part of my most recent report. The results of our team effort will be published on a regular basis, so you will be joining me in contributing to a greater good.

We have already identified key sectors to avoid as well as those worth further examination. Articles in financial publications are only now catching up. In the next stage of our research (leading to specific stock ideas) we will go inside the cells of the Matrix to build a watch list. My last report published a few of these stock ideas (retrofitting buildings), and there will be many more to come. Eventually I'll make them part of Seeking Alpha reports, but please join in the process and add your voice in the suggestions. There will also soon be another Wisdom of Crowds survey, helping to gauge the length of the pandemic. I have created a resource page where you can join my Great Reset group.

Quant Corner and Risk Analysis

I have a rule for my investment clients. ***Think first about your risk. Only then should you consider possible rewards***. I monitor many quantitative reports and highlight the best methods in this weekly update, featuring the Indicator Snapshot.

Risk Indicator	This Week	Last Week	Last Month	Last Quarter	Interpretation
Valuation					
Ten-year note yield	0.53%	0.59%	0.67%	0.62%	
S&P 500	3,271	3,216	3,130	2,831	
S&P Forward Earnings	148	147	143	139	
S&P Earnings yield	4.53%	4.56%	4.57%	4.91%	
Equity Risk Premium	4.00%	3.97%	3.90%	4.29%	High
Economy					
C-Score	2,987	3088	3501	2220	Uncharted territory
BCIp	NA	NA	NA	NA	Reporting paused because of extreme readings
SLFSI	-0.46	-0.17	0.25	1.1	Low Risk
Anticipated Inflation	1.55%	1.51%	1.41%	1.06%	Still creeping higher
VIX	14.46%	25.84%	27.68%	37.19%	Recent low - close to actual
Historical S&P Volatility					
Last Five Days	12.87%	13.66%	25.71%	33.90%	
Last Twenty Days	13.90%	17.23%	30.87%	39.23%	
Technical Health					
Short-term	2	2	3	4	Mildly Bullish
Long-term	2	2	3	4	Mildly Bullish
Overall Outlook	Bearish	Bearish	Bearish	Neutral	

Sources: St. Louis Fed iMarket Signals, Fundamentalis, Heritage Capital Research, and Incline Investment Advisors, LLC. ©2020

For a description of these sources, check here.

Despite the improving technical indicators, I continue my rating of "Bearish" in the overall outlook for long-term investors. We should also keep watch on the increase in anticipated inflation. So far it has not affected bond prices (Thanks, Chairman Powell) but it eventually will.

The C-Score remains at levels never before seen. It is combining the sharp economic rebound with pandemic effects. When we are able to separate the two, a current mission of Dr. Dieli, it will provide more guidance on the timing and extent of the recovery.

The Featured Sources:

Bob Dieli: Business cycle analysis via the "C Score".

Brian Gilmartin: All things earnings, for the overall market as well as many individual companies. This week

© 2021 Advisor Perspectives, Inc. All rights reserved.

Brian also takes note of the improvement in corporate credit spreads.

David Moenning: Developer and "keeper" of the Indicator Wall.

Georg Vrba: Business cycle indicator and market timing tools.

Doug Short and Jill Mislinski: Regular updating of an array of indicators, including the very helpful Big Four.

Final Thought

Many of my recent worries are playing out as I feared. The pandemic is getting worse, and many people seem to think they are invulnerable. While some businesses have reopened on a partial basis, we are far from a complete recovery. Stock market and economic assumptions seem far too optimistic. Our political leaders seem not to see the dangers, and important legislation has been stalled.

My data-driven approach still seems reassuring, mostly because of the impact of Fed policy on interest rates and the estimates for forward earnings.

These deserve close attention. And I have not even gotten to China.

If I could get even a few people to think seriously about this idea, it would make it worthwhile to write this post. It is very natural to think that your friends and allies believe as you do. Accepting a different viewpoint is the challenge of cognitive dissonance. The Wikipedia description is pretty good:

*In the field of psychology, **cognitive dissonance** occurs when a person holds two or more contradictory beliefs, ideas, or values; or participates in an action that goes against one of these three, and experiences psychological stress because of that. According to this theory, when two actions or ideas are not psychologically consistent with each other, people do all in their power to change them until they become consistent.[1] The discomfort is triggered by the person's belief clashing with new information perceived, wherein they try to find a way to resolve the contradiction to reduce their discomfort.[1][2]*

In A Theory of Cognitive Dissonance (1957), Leon Festinger proposed that human beings strive for internal psychological consistency to function mentally in the real world. A person who experiences internal inconsistency tends to become psychologically uncomfortable and is motivated to reduce the cognitive dissonance. They tend to make changes to justify the stressful behavior, either by adding new parts to the cognition causing the psychological dissonance or by avoiding circumstances and contradictory information likely to increase the magnitude of the cognitive dissonance.[2]

It is critical in many personal decisions and risk-taking.

Many people, including some of my friends and loved ones, want to socialize, party, and go to crowded venues. They feel their admired leaders have endorsed their right to do so. Suggesting different behavior is almost impossible because it involves concluding that their leader might be wrong about something.

Try this idea: Take your science advice from scientists and your medical advice from doctors. Then go vote for whomever you want!

Here is a lame joke that makes the point: An epidemiologist, an ICU doctor, and a scientist walk into a bar…

But they didn't of course, because they all know better.

© NewArc Investments, Inc.