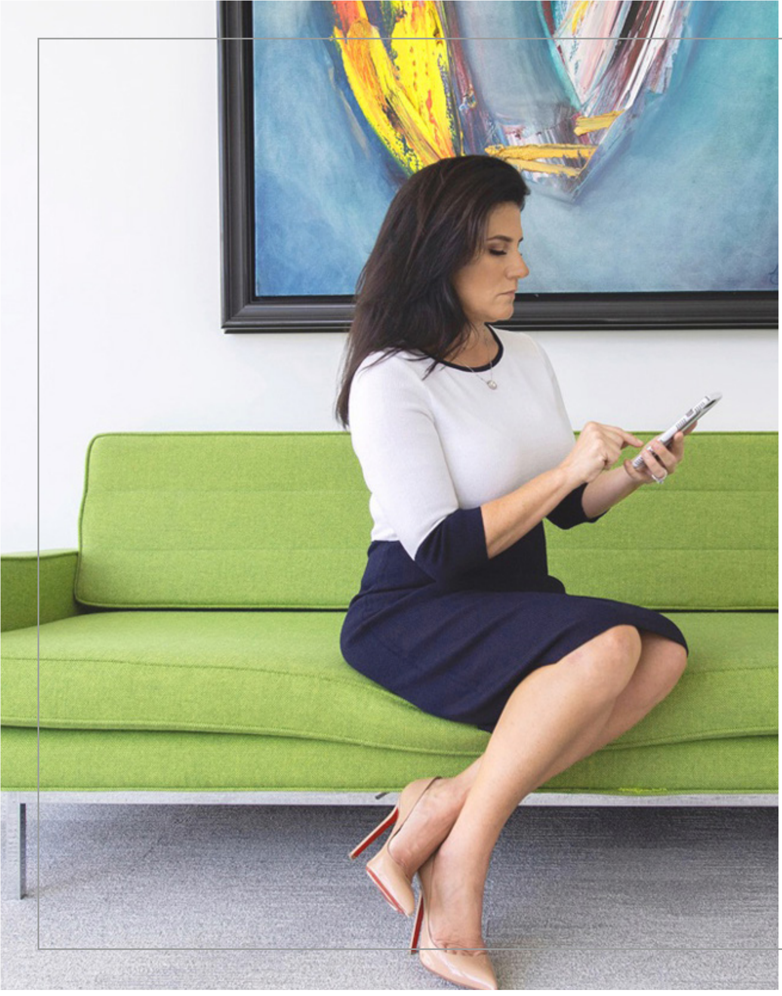

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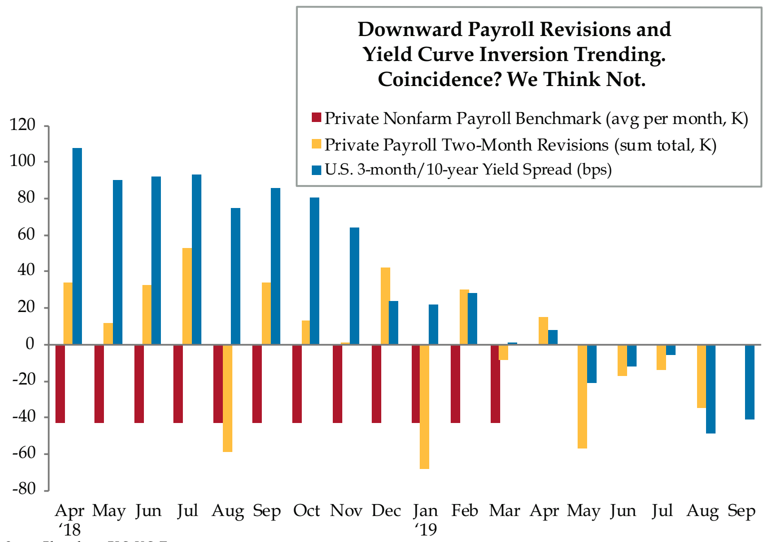
Deadpool of Labor

VIPs

- Powell's characterization of the labor market being in "quite a strong position" defies Fed's revision rule of thumb: three straight months of up or down revisions signal cycle turns; August marked month five, accompanied by a similar stretch of yield curve inversion
- Fed economists treat benchmark revisions as stronger indicators of trend change vs. real time revisions with the first year of a significant benchmark revision tending to foreshadow the next; BLS private payroll data was benchmark revised by -0.4%, the worst since 2010
- Analyzing the timeframe from January and March 2019 with the latter the last for which benchmark revisions are available indicates a worsening trend suggesting next August's BLS benchmark revision through March 2020 will be deeper



Source: Bloomberg, BLS, U.S. Treasury

In Time travel has a protocol. But don't let *Deadpool 2* violating said protocol, dictated by Marvel Cinematic Universe (MCU —yes, there really is an acronym for that), dissuade you from catching the brilliant sequel to the quirkiest of all the mega-franchise's offerings. So what if Cable, portrayed by Josh Brolin, changes the past in the present. You'll forgive the departure from MCU strictures that mandate plots create a new timeline instead of displacing themselves in the current one, at least if you're an '80s pop music devotee. The soundtrack is that good and even better than the movie, which is saying something.

It's likely Jay Powell would opt for the *Deadpool* methodology of time travel to change the past in the present. He wouldn't have to go far, as the bird flies. The distance between the Eccles Building on Constitution Avenue and that of the Bureau of Labor Statistics (BLS) on Massachusetts Avenue NE is all of 2.3 miles. As for what would be altered, focus on those red and yellow bars above. Rather than the downward revisions the BLS has spit out in 16 of the last 17 months, Powell could magically make them upward revisions matching up his stated assessment of the economy with the data.

Bear in mind, Powell had seen the August payroll report **before** making his comments on Friday in Zurich (to, by the way, the most cordial audience ever assembled as no one dared raise the subject of "negative interest rates" in Switzerland of all places, home of the most negative of the pack).

Private payrolls, the surest reflection of the real economy's strength, came in at a whopping 96,000 in August. Smoothing out the monthly noise, this gauge has slid from an average of 129,000 over the past three months, 165,000 over the past 12 months and 215,000 in 2018. Powell graded this clear trend as indictive of the labor market being in "quite a strong position." Where was he when I was battling with my business school Statistics professor who gave new meaning to the term "hard ass"?

But this wasn't Powell's oddest comment. As we mentioned after the July payroll report, double-month downward revisions broadcast an even stronger signal than single-month downward revisions. On those counts, August marked the fourth consecutive double-down and fifth consecutive single-down revision.

As a reminder, the Fed's rule of thumb on revisions is 3 months of single-down or single-up to denote inflection points in the economic cycle. QI is a bit more stringent. As per Dr. Gates' scale, three months makes a "trend," four a "fact," and five a "That's the fact, Jack!"

Tack on the BLS' benchmark revisions and things really get cooking. Throughout the extraordinary run of the current cycle's labor market expansion, benchmark revisions have been nonevents. As per the BLS: "The annual benchmark revisions over the last 10 years have averaged plus or minus two-tenths of one percent of total nonfarm employment." At -0.3%, the deviation in the year through March 2019 understandably stopped traffic a few weeks back.

What we've depicted above, however, is purely private payrolls data. That benchmark revision was even deeper, at -0.4%, or an average of -42,000 jobs **per month**. That marked the worst year since 2010 when the revision was -391,000 which followed the bloodbath year of 2009 when revisions were -933,000.

Fed economists will tell you that benchmark revisions are an even bigger "trend tell" than single or even double-month revisions real time. The first year of a big benchmark tends to preview the next – the past previews the present.

Look closely at January and March 2019 with the latter the last for which we have benchmark revisions. These two months feature **both** negative benchmark and double-down real time revisions. They're flashing a deepening of the trend suggesting next August's BLS benchmark revision through March 2020 will be even uglier than that which ran through this past March.

As for those yield curve naysayers, the "It's different this time" crowd, in purely friendly financial literacy fashion, we've added the 3-month/10-year curve to today's chart. Do we think it's coincidence that the entrenched streak of double-down revisions began in May alongside the curve inverting? We'll let you answer that one.

As for Powell, bless his heart, "The most likely outlook is still moderate growth, a strong labor market and inflation continuing to move back up." For good measure, he added that, "Our main expectation is not at all that there will be a recession." In the interest of decorum, we should share with Powell our favorite *Deadpool 2* soundtrack feature: Cher's "If I Could Turn Back Time." We sense he's humming that tune today in the Eccles Building.