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TRENDMACRO LIVE!

On the November Jobs Report

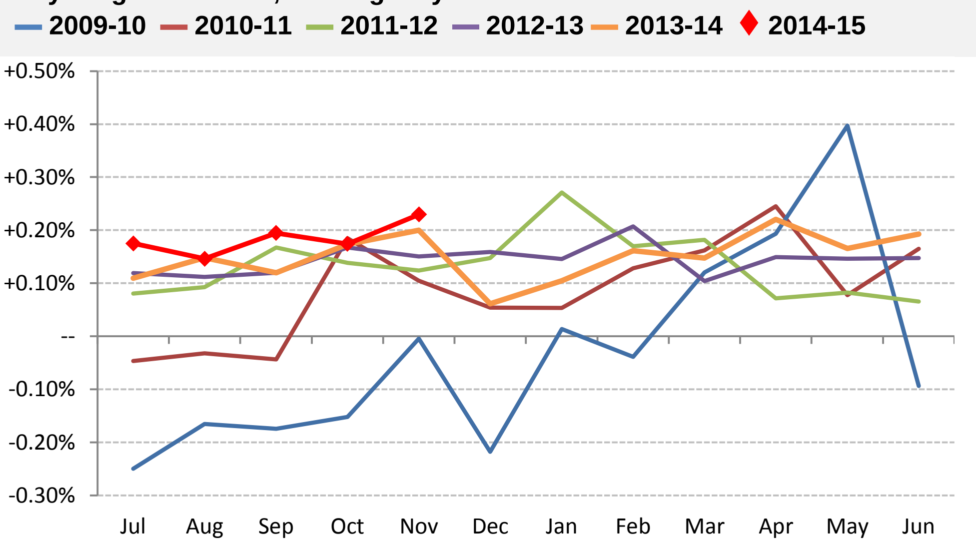
Friday, December 5, 2014
Donald Luskin

In the sixth year of the cycle, and despite freezing weather, the best November yet.

This morning's Employment Situation report was a major upside surprise, with 321,000 payroll jobs versus consensus of 230,000 -- and that on top of large upward revisions to the prior two months of 44,000.

- In one sense this big beat feels slightly off to us. Based on other contemporaneous data on hiring and jobless claims, we would have expected a miss.
- On the other hand, it fits. We've been calling for a major upshift in US growth beginning within calendar 2014 (see "A Major Upgrade to our Strategic Outlook" September 12, 2013). We've already had in Q2 and Q3 the best two back-to-back GDP quarters since 2013, and this jobs report indicates that it's ongoing.
- Indeed, in a business cycle expansion now more than five years old, this was the best November yet in terms of percentage jobs growth. In fact in all four months so far of this sixth year of the expansion we've had either best or tied-for-best jobs growth (please see the chart below).
- On an unrounded basis, the unemployment rate ticked up slightly -- but it was for good reasons. The labor force expanded by 119,000

Payroll growth MOM, starting July



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, US FED: A huge beat in payrolls, on top of large revisions -- the best November this cycle, despite an expansion now in its sixth year. It fits in with the trend toward better growth we've seen for the last two quarters. It's all the more remarkable considering that November was very cold, and many persons reported unemployment due to weather. That's why short-term unemployment rose, but long-term unemployment continued to fall. Hourly wages had their second-best gain in this cycle. But we don't think this report will, on its own, have any particular effect on the Fed's timing of "lift-off."

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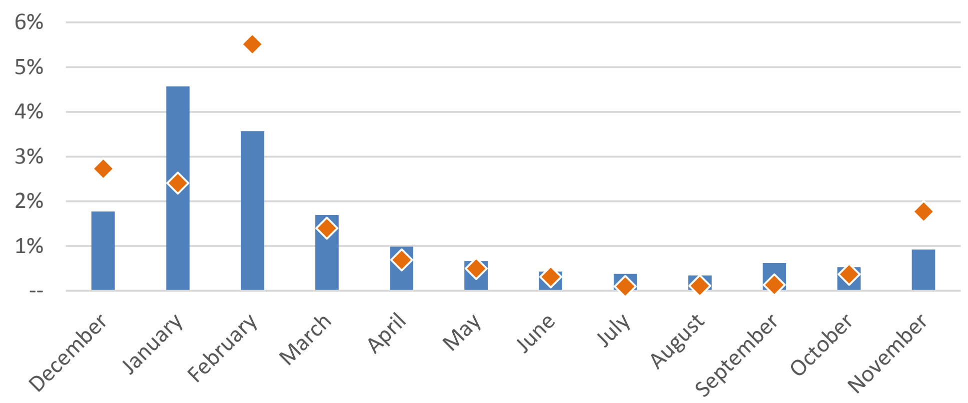
persons, 115,000 of whom entered without a job (see "Data Insights: Jobs" December 5, 2014).

- This might be explained by the fact that this has been the coldest November in years. 153,000 persons claimed to be out of work due to weather -- a far higher number than usual for a November, harking back to the out-of-pattern weather burdens in the frigid months of December 2013 and February 2014 (please see the chart below). *With the weather burden in mind, today's very strong jobs data is all the more remarkable.*

Share of unemployment due to weather ■ **Average 1976-2012** ◆ **2013-14**



Source: BLS, TrendMacro calculations

- The arrival of 115,000 new unemployed persons in the workforce, by necessity, drives an uptick in short-term unemployment. We've been noting consistently that short-term unemployment is already back to about where it was at the prior business cycle top in 2007, and so doesn't leave much room for improvement force (see "The Low Hanging Fruits of Our Labor" July 15, 2014).
- For those who believe that the long-term unemployed are virtually unemployable now, due to staleness or a basic skills mismatch, then the US economy is back to full employment. Today's sharp uptick in average hourly earnings -- the best in this business cycle expansion with the exception of a single anomalous data point in 2011 -- would point toward support for that narrative, perhaps indicating some degree of resurgence of wage pressure.
- *But that ignores the fact that the number of long-term unemployed fell in November by 33,000, continuing a trend that's been in motion for three years now* (please see the chart on the following page)*. It is a myth that the long-term unemployed are unemployable -- and there are still almost 2 million more of them left to be employed (and that doesn't even consider the shadow inventory of persons who have dropped out of the labor force and thus escape measurement as unemployed). The US economy is far from full employment.*

With all that in mind, we don't see how this jobs report will particularly change the Fed's outlook as to the timing of "lift-off" from zero interest rates.

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Recommended Reading

State Of Emergency In Ukraine As Russia Cuts Off Coal
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OilPrice.com
November 27, 2014

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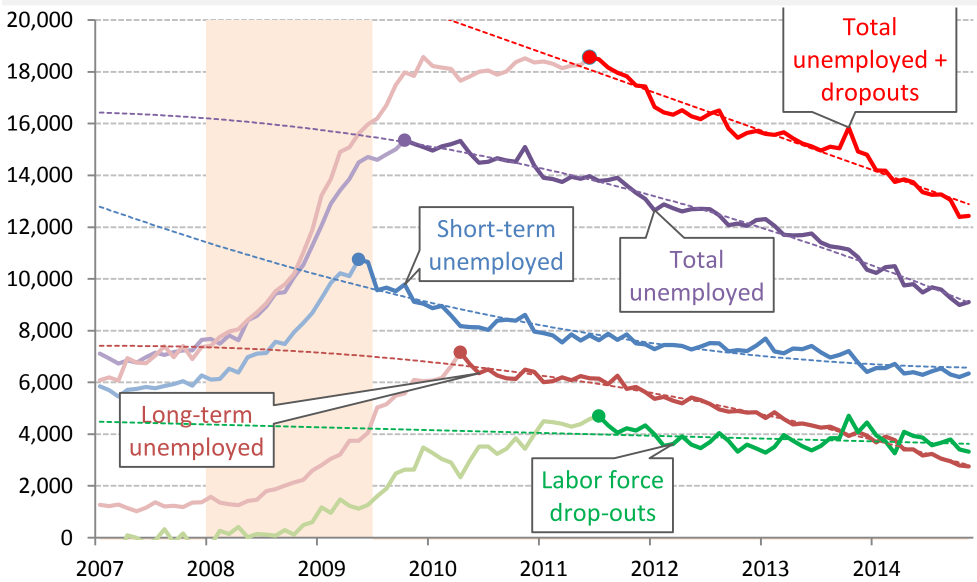

Source: BLS, TrendMacro calculations

- The [FOMC](#) has already recognized that labor market has shown "solid jobs gains" (see ["On the October FOMC"](#) October 29, 2014).
- Inflationary risks arising from wage pressure have been off the table for the Fed, because there has been no wage pressure. We think it's unlikely that this one good month of rising wages will change that mindset, especially with falling oil prices exerting downward pressure on inflation (see ["Don't Let a Good Oil Crisis Go to Waste"](#) October 21, 2014).

Bottom line

A huge beat in payrolls, on top of large revisions -- the best November this cycle, despite an expansion now in its sixth year. It fits in with the trend toward better growth we've seen for the last two quarters. It's all the more remarkable considering that November was very cold, and many persons reported unemployment due to weather. That's why short-term unemployment rose, but long-term unemployment continued to fall. Hourly wages had their second-best gain in this cycle. But we don't think this report will, on its own, have any particular effect on the Fed's timing of "lift-off."