

TRENDMACRO LIVE!

On the November Jobs Report

Friday, December 8, 2017

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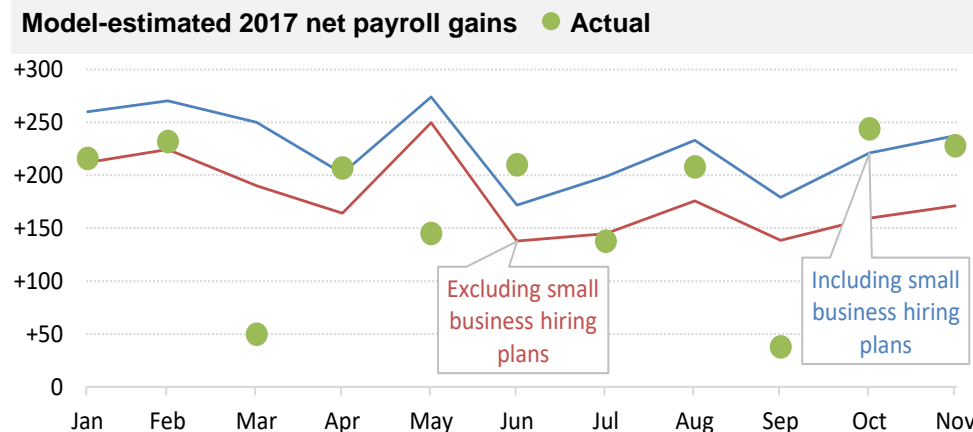
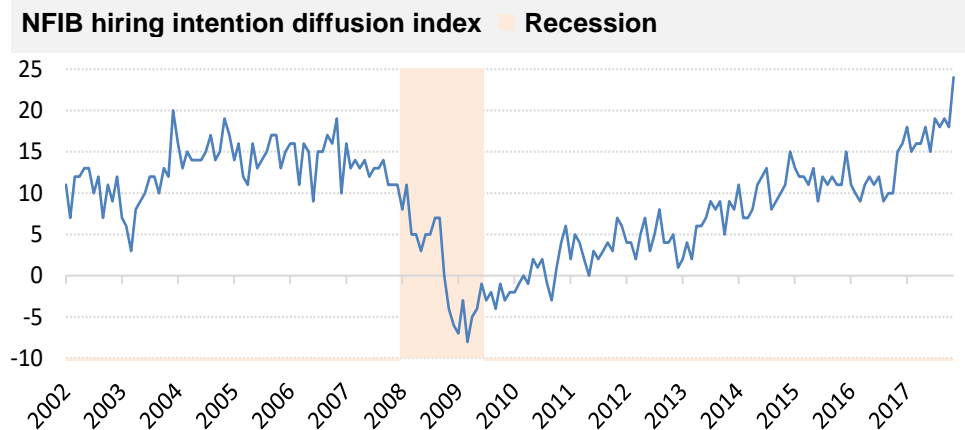
Small business optimism drives a big payroll beat. We're still 2.7 million from full employment.

[This morning's November Employment Situation report](#), with 228,000 net payroll gains, beat the consensus estimate of 195,000. *There were only trivial net revisions to prior months, so the estimation error would appear to come from the failure by the consensus to appreciate the surge in small business optimism.* The National Federation of Independent Business's diffusion index of hiring plans has been rising all year, and for November it broke out to all-time highs (please see the top chart below). Regression analysis of several contemporaneous labor market indicators, *including* the NFIB index, almost perfectly explains this month's net payroll gains, while the same analysis *excluding* NFIB produces a large underestimate (please see the bottom chart, below).

Update to strategic view

US MACRO, US FED: A beat for payrolls, driven by the break-out in small business optimism to new all-time highs. Hours-worked sharply increased, driving growth in weekly earnings – but there was little growth in hourly earnings, so the Fed has no reason to normalize policy any faster. Jobs growth continues strong despite dwindling unemployment because as many as 1.6 million workers could join the labor force. Jobs would have to grow by 2.7 million to hit full employment.

[\[Strategy dashboard\]](#)



Source: TrendMacro calcs and (Top) NFIB (Bottom) BLS, ADP, Challenger, NFIB, ISM

- While the unemployment rate was reported as unchanged, it was actually higher by about 0.5%. That's because the labor force grew by 148,000 persons, but employment only grew by 57,000. So 90,000 new entrants to the labor force are unemployed (see "[Data Insights: Jobs](#)" December 8, 2017). *This* kind of growth in the number of unemployed is good news, because it is the result of the expansion of the labor force.
- At the same time, the number of long-term unemployed fell last month by 41,000 – suggesting, at least casually, that while not all new entrants could immediately get jobs, some of those who have been waiting for more than 27 weeks did.
- *It seems odd, at first glance, that jobs growth remains strong in the face of dwindling pools of unemployment.*
- At this point what was once a vast army of long-term unemployed – as many as 7.2 million at the worst in April 2010 – has finally been reduced to 1.6 million, just 180,000 above the December 2007 business cycle peak.
- Short-term unemployment is now 1.2 million *below* December 2007. *Where is the jobs growth to come from going forward?*
- Remember, the number of unemployed persons only count those in the labor force – not those who have dropped out. *We continue to believe that as many as 1.6 million could join the labor force, based on the turnaround in US demographics of aging and educational attainment* (see "[The Demographics Myth](#)" March 20, 2017 and, again, "[Data Insights: Jobs](#)").
- *Combining that potential growth in the labor force with the remaining gap from here to historic low unemployment rates, we think total employment could expand by as much as 2.7 million* (again, see "[Data Insights: Jobs](#)").
- For the Fed's purposes, there must still be slack in the labor force because average hourly earnings growth continues to be lackluster – at 0.2% in November, down from a not-stellar 0.3% in October.
- This is despite the fact that hours-worked expanded sharply – by 0.5% in November – driving average *weekly* earnings up 0.7%.
- We've never believed that full employment causes inflation, and we're happy that in the Yellen years the Fed has backed away from its traditional belief in such nonsense (see "[Yellen's March to Neutrality](#)" March 6, 2017). But even a true-believer would find little reason in the data to think that the Fed's glacial normalization campaign would need to be accelerated due to tightness in the labor market.

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Bottom line

A beat for payrolls, driven by the break-out in small business optimism to new all-time highs. Hours-worked sharply increased, driving growth in weekly earnings – but there was little growth in hourly earnings, so the Fed has no reason to normalize policy any faster. Jobs growth continues strong despite dwindling unemployment because as many as 1.6 million workers could join the labor force. Jobs would have to grow by 2.7 million to hit full employment. ▶