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TRENDMACRO LIVE!

On the November Jobs Report

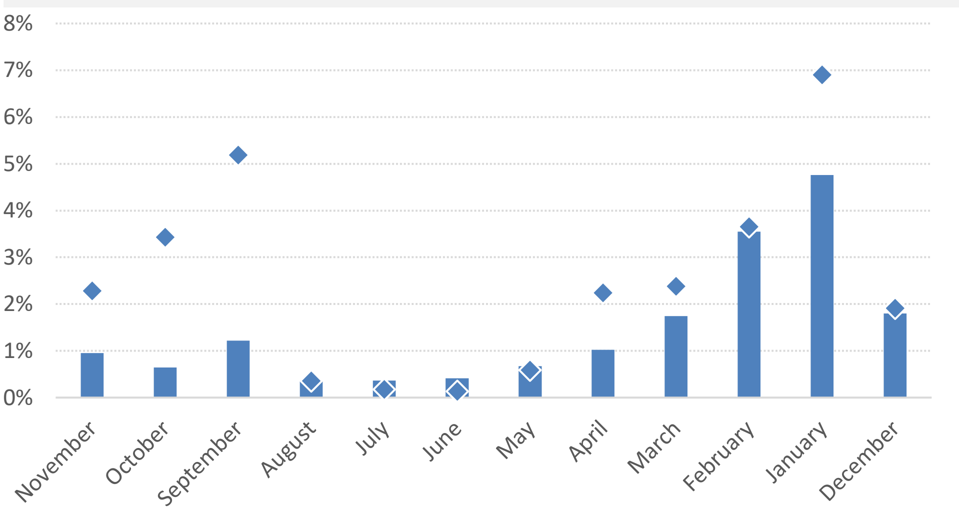
Friday, December 7, 2018

Donald Luskin

Powell says the labor market is "very strong." Based on this report. It's not even strong.

This morning's November Employment Situation report with 155,000 net payrolls was a big miss versus consensus expectations for 198,000, all the more so considering net downward revisions of 12,000 for the prior two months. The consensus was wildly optimistic, considering that our model based on other contemporaneous labor market data nailed it at 160,000. *It may be due to the fact that unemployment due to weather was unusually high for a November – and perhaps "weather" includes California fires (please see the chart below). But unlike this week's blockbuster US PMI numbers* (see "Data Insights: Global PMI" December 6, 2018), *it would seem to fit in with our theme that we are seeing alarming forward-looking signs of economic slowing* (see "Recession Risk at Last?" November 20, 2018).

- In terms of percent payroll growth, this was tied for the second-worst November since the end of the Great Recession (see "Data Insights: Jobs" December 7, 2018).
- Average hourly earnings growth rose month-on-month by a tepid 0.22%, about average for the not-so-great expansion following the Great Recession. Year-over-year earnings growth fell to 3.05% from 3.10%.



Source: Bureau of Labor Statistics, TrendMacro calculations

Update to strategic view

US MACRO, US FED: A big payroll miss versus a very unrealistic consensus, all the more so considering downward revisions. Weather may have played a role, but this ties for the second-worst payroll month since the Great Recession ended, and it's consistent with forward-looking indicators that point to slowing growth. Hourly earnings growth was tepid. Yet in remarks last night Powell characterized the labor market as "very strong." The default is that there will be a hike at the December FOMC, but we give it just a 50-50 chance.

[Strategy dashboard]

- *This all feeds into the growing possibility that the Fed will skip a "gradual" rate hike at the December FOMC meeting two weeks from now* – especially considering that there will be a press conference after the following meeting in January, at which time the funds rate could be hiked in case it turns out that skipping December was a mistake.
- *To be sure, the default assumption has to be that unless there is an outright yield curve inversion or unless something truly calamitous happens, the Fed will go ahead with the December hike, but make it clear in the post-meeting statement that any further "gradual" hikes are very much data-dependent*. As we pointed out yesterday morning (see "The Yield Curve: The World's Worst Indicator, But…" December 6, 2018), this is consistent with a very loud hint we had flagged last week in the minutes of the November FOMC meeting (see "Data Insights: FOMC Minutes" November 29, 2018). A *Wall Street Journal* Fed-watcher story mid-day yesterday making the same point seems to have been the catalyst for the late-day equity recovery.
- *Unfortunately, who knows what to believe at this point from new Fed Chair Jerome Powell*, who seems to have a talent for shooting himself in the foot (with his foot usually in his mouth). He said in remarks yesterday evening, despite surely having seen a preview of this morning's jobs numbers, "I am happy to report that our economy is currently performing very well overall, with strong job creation and gradually rising wages. …our labor market is very strong."
- *No, based on this morning's jobs report, "very" is a most foolish word for him to have used. He's got the better part of two weeks to think it over. We give a December pause a 50-50 chance. As of this writing, the market gives it about a 20% probability.*

Bottom line

A big payroll miss versus a very unrealistic consensus, all the more so considering downward revisions. Weather may have played a role, but this ties for the second-worst payroll month since the Great Recession ended, and it's consistent with forward-looking indicators that point to slowing growth. Hourly earnings growth was tepid. Yet in remarks last night Powell characterized the labor market as "very strong." The default is that there will be a hike at the December FOMC, but we give it just a 50-50 chance.

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