

TRENDMACRO LIVE!

On the October Jobs Report

Friday, November 2, 2012

Donald Lusk

Last data before the election. Our model's final call: Obama by 122 Electoral College votes.

Last month the presidential aspirants had to deal with [a paradoxical jobs report](#) that showed a big improvement in the unemployment rate, but no improvement in payroll jobs creation (see ["On the September Jobs Report"](#) October 5, 2012). [This morning's Employment Situation report](#) is seemingly paradoxical in the complementary direction, with some retracement in the unemployment rate but a large upside surprise in payrolls -- and strong payroll revisions for the prior two months. September's and October's jobs reports taken together are a PR win for President Obama.

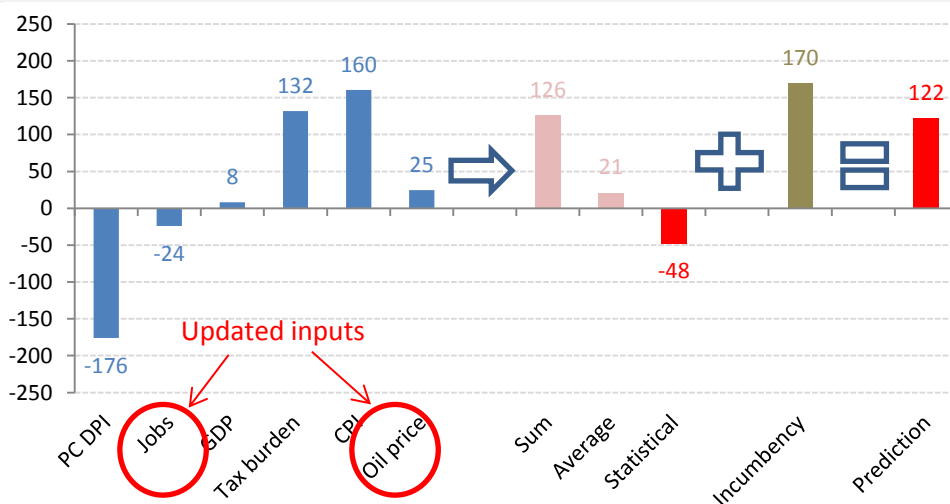
- This is the last major headline data release before next Tuesday's election.
- Jobs growth is still a negative factor for President Obama in our election model (see the chart below, and ["TrendMacro's Election Model"](#) September 28, 2012). But October's gain of 171,000 net payroll jobs made it less negative, improving Obama's predicted winning margin by 8 Electoral College votes.
- However, the oil price more than offsets that. Our model looks at the four-year change in domestic crude prices, on a monthly basis. Rolling now into November, the four-year comparables with the

Update to strategic view

US MACRO, ELECTION MODEL: An upside surprise in payroll jobs, and good revisions. Taken together with last month's drop in the unemployment rate, it's a PR win for Obama. This is the last big data event before the election. Combined with changes in the oil price, our election model's final call is for Obama to win by 122 Electoral College votes. Politics aside, this morning's positive headlines don't change the fact that the labor market is unable to generate sufficient employment for the mass of unemployed -- critical indices of long-term unemployment remain at historically aggravated levels.

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TrendMacro's election prediction model



Source: Various, TrendMacro calculations

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winter 2008's prices in the 30's and the 40's are very difficult.

- This factor takes away 22 forecasted Electoral College votes from Obama.
- So now with days to go till the election, our election model is calling for Obama to be re-elected by a margin of 122 Electoral College votes.
- Statistically, this translates into a 77% probability of an Obama win. This is slightly more aggressive than the 68% probability now implied in the [online futures markets](#).

Setting aside political implications -- and the investment implications of those political implications as we head into the post-election negotiation about the fiscal cliff and the debt ceiling -- we urge clients to not draw false hope from this morning's report. There's no evidence here of any new momentum in the economy. It's just another jobs report in the Not So Great Expansion that followed the Great Recession.

- It's good to see better than expected payroll growth, and see the labor force participation rate uptick a bit.
- But the signature problem of the labor market in this most unusual business cycle continues to be the persistence of long-term unemployment.
- The average duration of unemployment increased by almost half a week, and the percentage of long-term unemployed rose to 40.6%.
- Most tellingly, the probability of an unemployed person getting a job within a month fell sharply to 22.5% (please see this morning's ["Data Insights: Jobs"](#)). While this most critical indicator of the dynamism of the labor market is off its very worst readings following the Great Recession, it is still stuck deeply in the range of historically unprecedented lows (please see the chart below).

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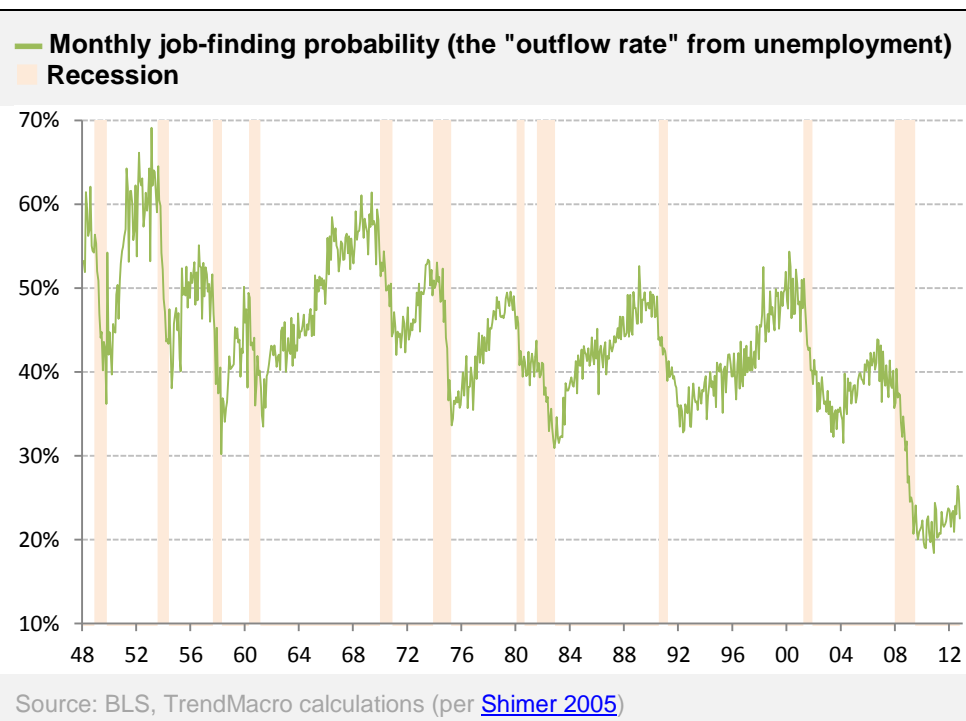
Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
212 537 9067
lorcan@trendmacro.com

John Clinton
Charlotte NC
704 552 3629
jclinton@trendmacro.com

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Bottom line

An upside surprise in payroll jobs, and good revisions. Taken together with last month's drop in the unemployment rate, it's a PR win for Obama. This is the last big data event before the election. Combined with changes in the oil price, our election model's final call is for Obama to win by 122 Electoral College votes. Politics aside, this morning's positive headlines don't change the fact that the labor market is unable to generate sufficient employment for the mass of unemployed -- critical indices of long-term unemployment remain at historically aggravated levels. ▶