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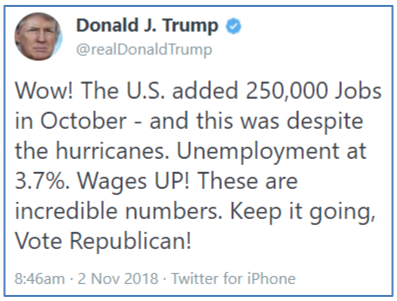
TRENDMACRO LIVE!

On the October Jobs Report

Friday, November 2, 2018

Donald Luskin

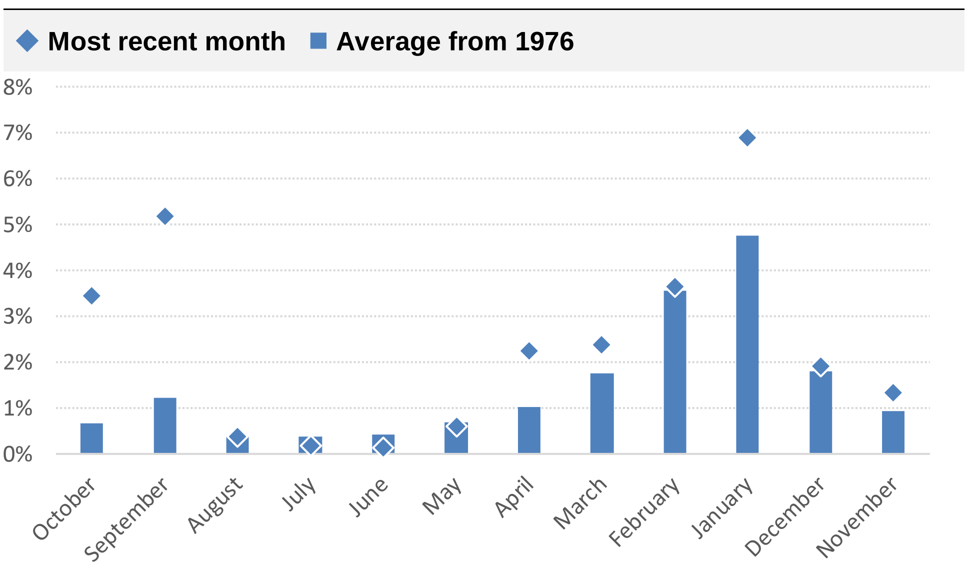
For the mid-terms, an October surprise in November. Yuge payroll beat, storms or no storms.


Donald J. Trump
@realDonaldTrump
Wow! The U.S. added 250,000 Jobs in October - and this was despite the hurricanes. Unemployment at 3.7%. Wages UP! These are incredible numbers. Keep it going, Vote Republican!
8:46am · 2 Nov 2018 · Twitter for iPhone

Just in time for the mid-terms! This morning's October Employment Situation report with 250,000 net payrolls, was the fourth-strongest October since the end of the Great Recession, remarkable as we enter the tenth year of expansion.

It blew away the consensus expectation for 200,000 – and it's a clean beat, because there were zero revisions to prior months. The consensus was a little conservative compared to our regression-estimate of 218,000 based on contemporaneous employment indicators, but the actual number beat even that.

- *There is reason to believe that the payrolls were actually suppressed by the effects of Hurricane Michael, and lingering after-effects of Hurricane Florence.* The Bureau of Labor Statistics claimed this morning that "Hurricane Michael had no discernible effect on the national employment" – which is odd, because it claimed last month that "it is not possible to quantify the net impact"



Source: Bureau of Labor Statistics, TrendMacro calculations

Update to strategic view

US MACRO, US FED: Just in time for the mid-terms, the fourth-best October since the Great Recession, ten years into the expansion. Payrolls at 250,000 were a big beat without and noise from revisions. The unemployment rate ticked up one half of a percentage point (within rounding error for the 3.7% headline) as 711,000 persons entered the labor force, with 16% of them unemployed. Year-over-year average hourly earnings turned in a new record high for this expansion at 3.1%, but that's only because an exceptionally weak datapoint one year ago dropped out. Monthly gains were meager, and annualize to a lower growth rate than one year ago. There is nothing here that would make the Fed worry about wage inflation.

[Strategy dashboard]

of Hurricane Florence because the "survey is not designed to isolate effects from catastrophic events."

- The Bureau does in fact publish statistics displaying the share of unemployment due to weather – and the share for October and September is sharply higher than the historical averages for those storm-prone months (please see the chart on the previous page).
- Storms or no storms, the civilian labor force grew by 711,000 to a new all-time high. All but 16% of those new entrants were immediately employed, *but that residual was enough to tick the unemployment rate up half a percentage point to 3.74%* – but under standard rounding conventions, it's printing at the same 3.7% as last month, a multi-generation low (see "Data Insights: Jobs" November 2, 2018).
- Average hourly earnings came in at 3.1% growth year-over-year, a new high since the Great Recession. But that's in part an artifact of an anomalously poor datapoint from one year ago dropping out of the calculation. *Growth month-over-month was only a mousy 0.18%, which is down 0.11% from September – and annualizes to 2.2%, which is even lower than the year-over-year rate one year ago.*
- We're not sure this deserves the all-caps "Wages UP!" that President Trump tweeted earlier this morning.
- *We are sure that if the Fed is looking closely, there is absolutely nothing here to suggest any kind of wage inflation.*

Bottom line

Just in time for the mid-terms, the fourth-best October since the Great Recession, ten years into the expansion. Payrolls at 250,000 were a big beat without and noise from revisions. The unemployment rate ticked up one half of a percentage point (within rounding error for the 3.7% headline) as 711,000 persons entered the labor force, with 16% of them unemployed. Year-over-year average hourly earnings turned in a new record high for this expansion at 3.1%, but that's only because an exceptionally weak datapoint one year ago dropped out. Monthly gains were meager, and annualize to a lower growth rate than one year ago. There is nothing here that would make the Fed worry about wage inflation.

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