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TRENDMACRO LIVE!

On the November Jobs Report

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An inexplicably big beat, on top of last month's. At the same time, OPEC does the right thing.

This morning's November Employment Situation report was a huge beat versus expectations for only 180,000 – and all the more so in that upward revisions of 41,000 to the prior two months' reports raised the bar. Those *upward revisions include 28,000 to October's payrolls, which was already a blockbuster beat*. 45,000 or so November payrolls are the result of automotive workers coming back from a strike, but that would have been anticipated in the consensus.

This report flies in the face of contemporaneous labor market data, which indicates in aggregate that employment increased only from 137,000 to 151,000 jobs – and indeed a tepid 81,000 new jobs reported in the "household survey" this morning confirms this. We have to think that these blockbuster payroll numbers are going to get revised lower. Nevertheless, they could get revised a lot lower and they'd still be strong – depriving those expecting a recession around the corner of a necessary argument.

- Taking the numbers at face value, this was the third-best November in this 10 years-plus business cycle expansion (see "Data Insights: Jobs" December 6, 2019).
- Average hourly earnings grew 0.25% in November, down from 0.36% in October – but October's growth was revised higher by 0.14%. On a year-on-year basis, they're down to 3.1% from 3.2% (the cycle peak was 3.4% in February). *So there is nothing here that would move even the Jerome Powell Fed to get worried about wage-push inflation pressures and consider a rate hike*. Indeed, as of this writing, the Treasury market seems so comfortable that the Fed will remain on hold – with the next move being a single final rate *cut* mid-2020 – that this very strong report has moved the 10-year yield higher, driven mostly by a widening of inflation expectations.
- We note that inflation expectations are also supported by good news from Vienna, where OPEC has announced the continuation and slight deepening of production cuts. *This takes off the table a major risk facing investors coming into the new year – a catastrophic deflationary drop in oil prices in the face of a wave of new US production* (see "Can This Year Just Please Be Over?" December 4, 2019).

Update to strategic view

US MACRO, US FED, US BONDS, OIL: A huge beat on top of large upward revisions. It is inconsistent with contemporaneous labor market indicators, and will probably be revised lower, but is nevertheless strong evidence against impending recession. Wage growth was tepid, giving the Fed no reason to be more hawkish, so bond yields rose on the back of widening inflation expectations. At the same time, OPEC has slightly deepened production cuts, heading off a deflationary drop in oil prices in the face of a wave of new US production. This takes a major risk off the table for the global economy.

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