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TRENDMACRO LIVE!

On the July Jobs Report, and Our 2020 Election Model

Friday, August 7, 2020

Donald Luskin

Big number, big beat. But a deceleration thanks to the second wave scare. That's over now.

This morning's July Employment Situation report was both a beat and a disappointment. The 1.76 million net payroll gain beat the consensus for 1.48 million, and the fall in the unemployment rate from 11.1% to 10.2% beat the consensus for 10.6%. *We were surprised ourselves*, because our model based on contemporaneous labor market data predicted a big miss, with net payrolls at only about 270,000. Surprise or not, by almost any standard, 1.76 million is a gigantic number. *Almost*. It is a big drop from June's blockbuster 4.80 million payroll gain, which was revised lower this morning by a mere 9 thousand. *Considering the deep employment hole created by the lockdowns in response to Covid-19, we're going to need to do better than this going forward if we want a V-shaped recovery*.

- *July's payroll gains added 74 electoral votes for President Donald J. Trump in our quantitative election prediction model, bringing the net forecast to a winning margin of 281, amplifying the comeback driven by the strong increase in Q2-2020 personal income reported last week* (see "Video: What you're not hearing about the economy and the 2020 presidential election" August 3, 2020 and

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US MACRO, US ELECTION MODEL: A big beat in both net payrolls and the unemployment rate. Contemporaneous labor market data implied a big miss, so data collection and methodological problems must persist. The payroll gain added 76 electoral college votes for Trump in our quantitative 2020 election prediction model, bringing his forecasted winning margin to 281. The absolute…

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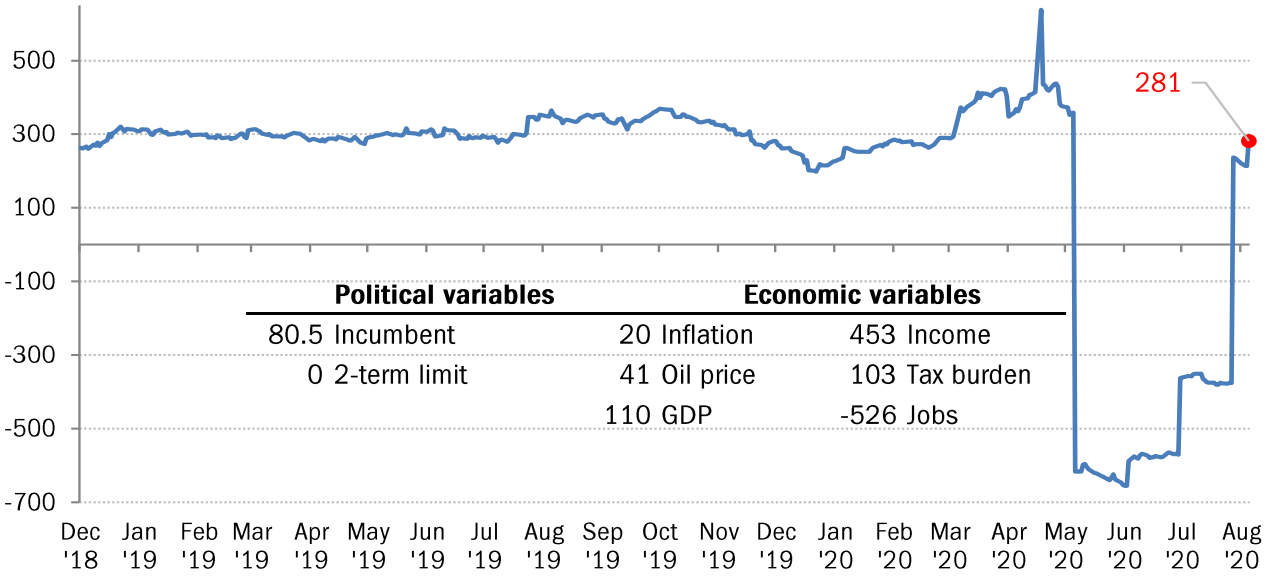
TrendMacro 2020 presidential election prediction model: margin in electoral college votes for incumbent party



Source: BLS, BEA, Bloomberg, TrendMacro calculations

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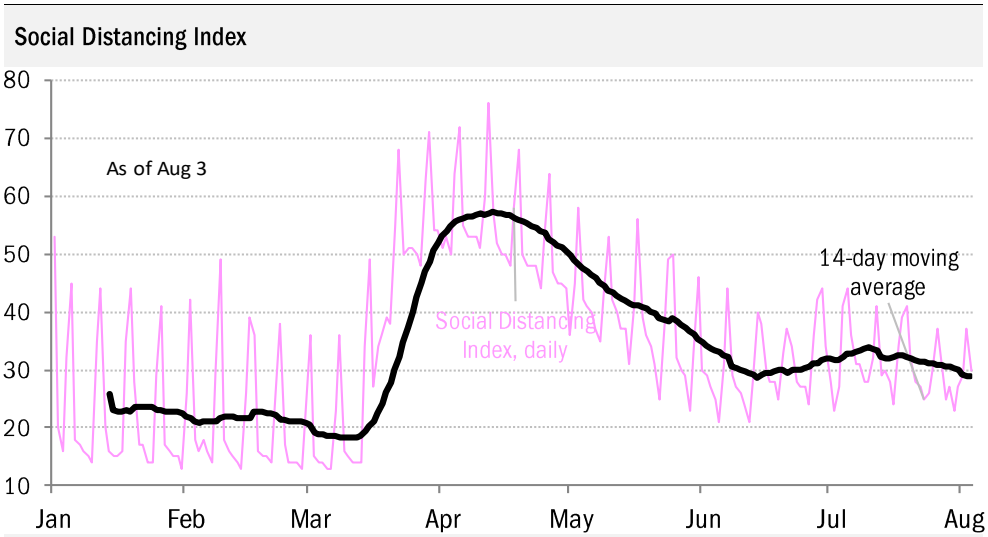
"Inside Our 2020 Presidential Election Prediction Model" March 18, 2019).)

- *We think July payrolls weren't stronger because of what we believe was a media-driven exaggeration of the risks of a second wave of Covid-2019. We can see this clearly in the stall-out in the recovery of personal mobility. It's reflected in the interruption of the Social Distancing Index's decline on the way back to pre-virus norms* (please see the chart below).



- We believe this "bear market rally" in social distancing was not caused by government-imposed lockdowns, which generally have been fairly trivial except in California. We have been correct that there is little remaining political will for heavy-handed lockdowns (see "A Second Wave of Lockdowns?" July 14, 2020). *But that's not to say that individuals won't self-lockdown at the margin, and indeed we think they have. But as the second wave has abated, and it has become evident that the media-hyped flare-up in new cases has not been matched by either hospital capacity constraints nor fatalities, people are beginning to release themselves from their self-imposed quarantine. The Social Distancing Index is now back all the way down to its late-May lows – but the July jobs report was computed using data coincidental to the Index's peak three weeks ago* (again, please see the chart above).
- This is confirmed by yesterday's unemployment insurance claims data, which showed both the lowest number of new claims since the virus crisis, *and* a large drop in continuing claims (see "High-Frequency Post-Virus US Recovery Report" August 6, 2020). *The labor market seems to have come alive again after mid-July, but too late to be captured in the payroll statistics*.
- None of that explains why July payroll gains were greater than consensus expectations, and far greater than ours. Perhaps it doesn't bear too much examination, because employment data continues to be squirrelly. The Bureau of Labor Statistics says it is getting its arms around the methodological issues that have

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… number of net payrolls in July was large by historical standards, but well below June's gains. We think this was due to self-quarantining in the face of media-driven exaggeration of the risks of a second wave of Covid-2019. With new cases subsiding, and hospitalizations and fatalities low, the self-quarantining is ending, with the Social Distancing Index already back to its mid-May recovery lows. Claims data is showing the labor market is responding, but too late for the mid-July data collection for this jobs report.

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thrown suspicion on the last several reports, but they are still publishing a long list of potential data collection and classification problems. Surely other data sources against which the BLS can be reality-checked have their own issues. *So maybe we shouldn't obsess overmuch on the details* (if you must, we have lots of them for you in "Data Insights: Jobs" August 7, 2020).

- *Let's just say that we know for sure that, directionally at least, the labor market is improving from its April nadir, that its rate of improvement slowed in July, and that there is reason to expect it will reaccelerate in August.*

Bottom line

A big beat in both net payrolls and the unemployment rate. Contemporaneous labor market data implied a big miss, so data collection and methodological problems must persist. The payroll gain added 76 electoral college votes for Trump in our quantitative 2020 election prediction model, bringing his forecasted winning margin to 281. The absolute number of net payrolls in July was large by historical standards, but well below June's gains. We think this was due to self-quarantining in the face of media-driven exaggeration of the risks of a second wave of Covid-2019. With new cases subsiding, and hospitalizations and fatalities low, the self-quarantining is ending, with the Social Distancing Index already back to its mid-June recovery lows. Claims data is showing the labor market is responding, but too late for the mid-July data collection for this jobs report.