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TRENDMACRO LIVE!

On Our 2020 Election Model and the September Jobs Report

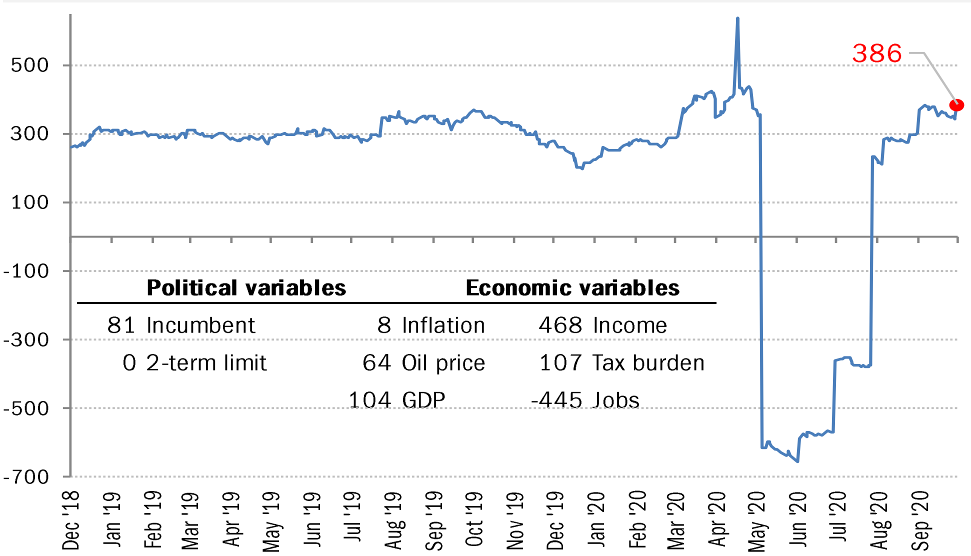
Friday, October 2, 2020
Donald Luskin

Payrolls earn more electoral college votes for Trump. He'll need them as the recovery matures.

This morning's September Employment Situation report with 661,000 net payrolls gained was a miss versus the consensus for 875,000. It's the first miss since March. There were also the largest revisions since the virus crisis began – upward revisions of 135,000 for the prior two months, which goes more than halfway toward explaining the miss. This is also the first time that payrolls have been reported anywhere close to our index of contemporaneous labor market indicators – a small beat, as it turns out, with our index expecting 590,000. This suggests to us that *data-collection and tabulation processes are calming down and getting more reliable*.

- *This gives President Donald J. Trump an additional 28 electoral college votes in our quantitative election prediction model* (see "Video: What you're not hearing about the economy and the 2020 presidential election" August 3, 2020)*. Combined with this morning's steep drop in oil prices, adding another 16 electoral college votes, the model now forecasts Trump will win by a margin of 386.*
- *Obviously there are many more factors in play beyond the model's*

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



Source: BLS, BEA, Bloomberg, TrendMacro calculations

Update to strategic view

US MACRO, US ELECTION MODEL: The first miss in March, with unusually large upward revisions explaining most of it. For the first time in the crisis, payrolls were consistent with our index of other contemporaneous labor market data. Trump picks up 28 electoral college votes in our quantitative model, but those and more will likely be shed as personal income data for Q3 comes out. The V-shaped recovery isn't petering out, it is maturing as one should expect. It is K-shaped only in the sense that all recoveries are. Every recovery has winners and losers, as sectors adapt differently to the unique shocks at hand. In the present moment, the entrepreneurial and diverse leisure and retail sectors are recovering robustly, contributing 70% of September's payroll gains. The sclerotic and monolithic education sector, on the other hand, subtracted payrolls.

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simple input universe (see "On Trump Tests Positive" October 2, 2020). Even within the model's narrow purview, while the present forecast seems insanely optimistic, Trump is going to need all the forecasted votes he can get. *We'll be writing more on this next week, but for now let us say that it looks like when GDP and personal income are reported for Q3-2020, the off-ramp from fiscal stimulus in Q2-2020* (see "On Trump's Executive Action Stimulus" August 9, 2020) *will move the model's forecast close to a tie – which is not inconsistent with our growing conviction that the election process will be delayed and litigated, and could end in a Constitutional crisis* (see "Video: Zoom meeting with Constitutional scholar John Yoo" and "Video: What you're not hearing about how a blue wave could re-elect Trump" September 25, 2020).

Politics aside, this morning's jobs report – by any absolute standard an upside blockbuster – by the relative standard of the red-hot growth coming out of April trough, is evidence of inevitable diminishing returns as the global economy crawls up the right side of a V-shaped economic recovery.

- We're not fond of the current fashion for calling this a K-shaped recovery. It isn't that it's not an apt description – it's that *all* recoveries are K-shaped in that they produce winners and losers. Recessions are shocks that clean out deadwood and catalyze new habits and technology adoptions that change the way people live and work. It's good old-fashioned creative destruction.
- Every recession and every recovery is unique, and within every one, every month is unique. In this recovery, retail and leisure jobs sectors had been the hardest hit and have been among the first and fastest to recover. That's in part due to the entrepreneurial nature and granular dispersion within those sectors, which have permitted useful improvisations to aid rapid re-opening. The education sector, on the other hand, is less diverse, more centrally controlled, and more union-dominated. *In September, retail and leisure added 460,000 payrolls, 70% of the national total of 661,000. Education shed 68,000* (see "Data Insights: Jobs" October 2, 2020).
- *There are going to be plenty of voices today that cite this jobs report as evidence that the recovery is faltering. We don't think so. It's not faltering, it's maturing. There are plenty of risks and uncertainties ahead, but taken in the context of all the economic indicators we have to guide us* (see "Data Insights: High-Frequency Post-Virus US Recovery Monitor" October 1, 2020), *the watchword has to be "so far so good, and steady as she goes."*

Bottom line

The first miss in March, with unusually large upward revisions explaining most of it. For the first time in the crisis, payrolls were consistent with our index of other contemporaneous labor market data. Trump picks up 28 electoral college votes in our quantitative model, but those and more will likely be shed as personal income data for Q3 comes out. The V-shaped recovery isn't petering out, it is maturing as one should expect. It is K-

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