

TRENDMACRO LIVE!

On the October Jobs Report

Friday, November 6, 2020

Donald Luskin

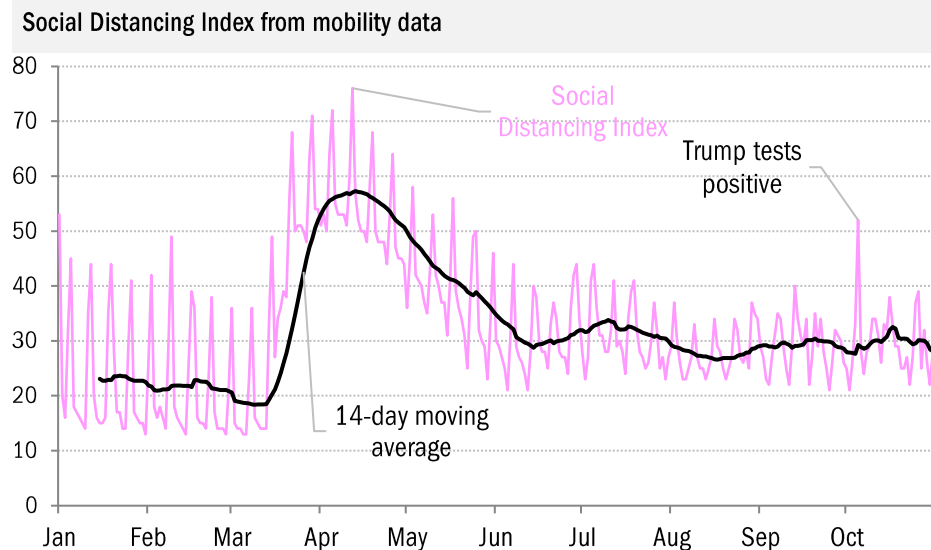
The pace of labor market growth remains strong, casting doubt on Powell's stimulus mantra.

[This morning's October Employment Situation report](#) with 638,000 net payroll gains was a beat versus the consensus for 580,000, all the more so given modest upward revisions of 15,000 to the prior two months. It was a strong beat versus our model based on other contemporaneous labor market indicators, which had estimated 315,000.

The unemployment rate fell a full percentage point, from 7.9% to 6.9%, versus a consensus for 7.6%. The surprise lower number is consistent with the implied unemployment rate from weekly jobless claims, which we report every Thursday (see ["Data Insights: High-Frequency Post-Virus US Recovery Monitor"](#) November 5, 2020). *This is especially good news, because it occurred despite an expansion of the labor force by 724,000.*

These results challenge Fed Chair Jerome Powell's claim, made repeatedly at yesterday's FOMC post-meeting press conference -- it was virtually a mantra -- that "In recent months... the pace of improvement has moderated." The pace of payroll growth -- about 0.5% -- was virtually identical in October, compared to September. October's improvement in the unemployment rate was half-again better than September's.

This is especially remarkable considering that social distancing in the US



Source: [University of Maryland Transportation Inst.](#), TrendMacro calculations

Update to strategic view

US MACRO: An upside surprise in payrolls despite upward revisions, and a surprise drop in the unemployment rate despite an expansion of the labor force. The monthly pace of jobs growth matched last month's, throwing into question Powell's repeated claim that the pace is slowing, thus requiring more fiscal stimulus. This strong labor market performance was achieved despite an increase in social distancing after Trump tested positive for Covid in early October. Hours worked have recovered more than the number of jobs, pointing to the need for more hiring to sustain an exhausting level of economic activity. Disability claims have continued to fall despite the sharp recession, making more persons available for work. Six months after the lockdown recession trough, the number of long-term unemployed is finally rising. The political clamor for stimulus arises because these people not only suffer from unemployment, but they have done so for a long time.

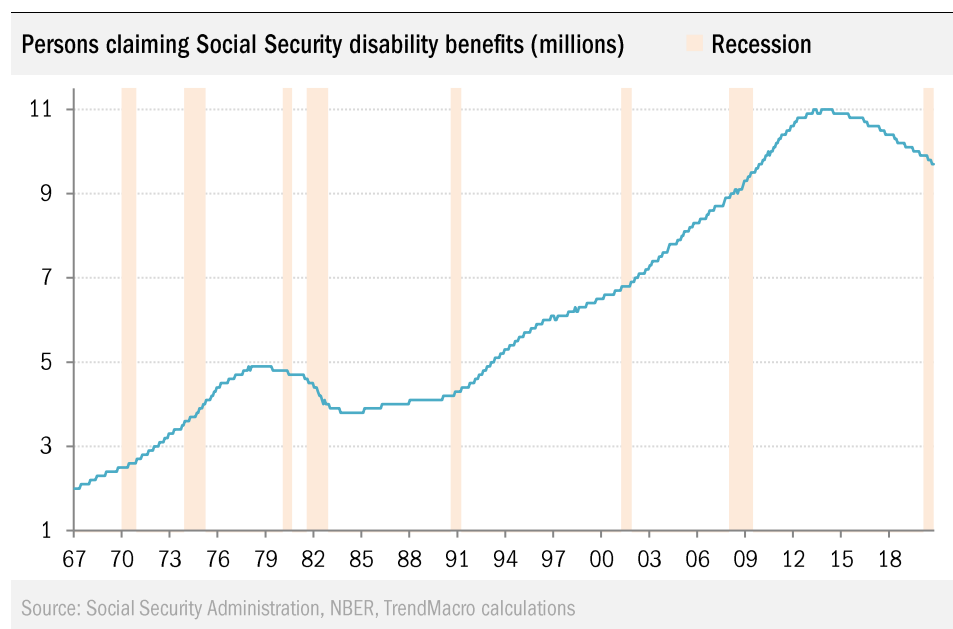
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rose noticeably in October following the news that President Donald J. Trump and other notable Republicans had tested positive for Covid-19 (please see the chart on the first page and “On Trump Tests Positive” October 2, 2020).

This casts doubt on Powell’s other mantra – that the recovery from the coronavirus lockdown depression requires further “stimulus” from Congress in order to be sustained (see “On the November FOMC” November 5, 2020). We can argue about the extent to which recovery might be *improved* by it, and if we’re honest with ourselves we would measure that possible improvement versus the costs. But is “stimulus” *required*? Apparently not.

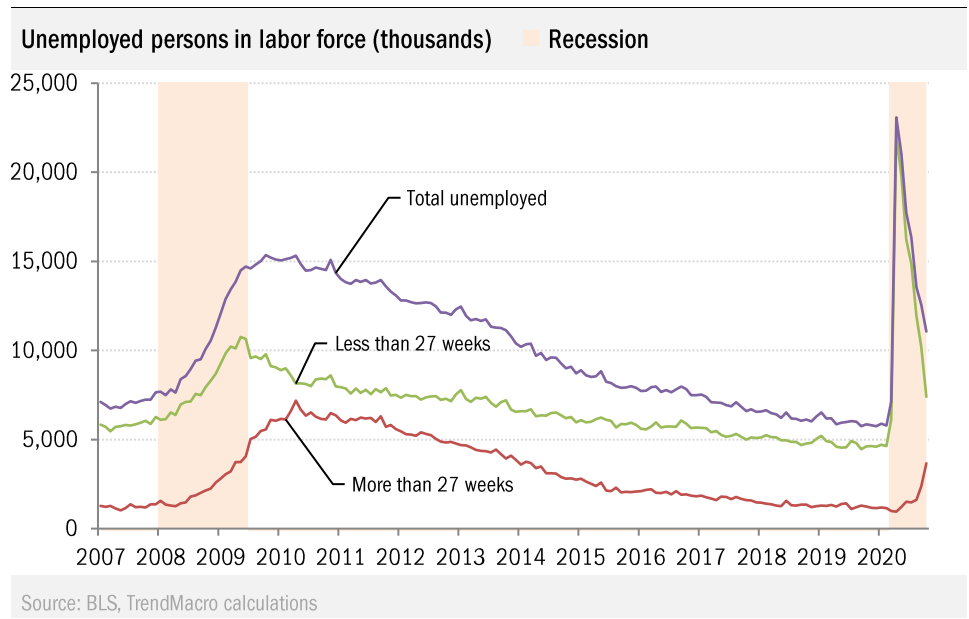
Be that as it may, this morning’s jobs report is a good opportunity to assess where we are now, six months on from the April lockdown bottom.

- 51% of lost payrolls have been restored. 58% of lost jobs have been restored, using the “Household Survey” instead of the “Payroll Survey.” But 66% of hours worked have been restored. If 51% or even 58% of the workers are putting in 66% of the hours, that implies either a productivity miracle or an unsustainable burden which ought to resolve in continued rapid jobs growth.
- The secular decline in the number of persons claiming Social Security disability benefits has continued during the lockdown recession, implying continued restoration of available workers to sustain growth when the economy gets back to what otherwise might seem to be full capacity (please see the chart below and “Data Insights: Jobs” November 6, 2020).



- The lockdown recession was so sudden, and occurred against the backdrop of such a strong labor market, that until now not enough time had gone by to produce a significant increase in the number of

people unemployed long-term, that is, greater than 27 weeks. To put it another way, short-term unemployment has come down spectacularly in part because of the post-lockdown restoration of job opportunities (the good news), and in part because some of it has transferred into long-term unemployment (the bad news). *Political pressure to “do something” with “stimulus” rises despite the robust restoration of jobs because, increasingly, those remaining jobless suffer the double-harm of being unemployed, and being unemployed for a long time* (please see the chart below, and again, [“Data Insights: Jobs”](#) November 6, 2020).



Bottom line

An upside surprise in payrolls despite upward revisions, and a surprise drop in the unemployment rate despite an expansion of the labor force. The monthly pace of jobs growth matched last month's, throwing into question Powell's repeated claim that the pace is slowing, thus requiring more fiscal stimulus. This strong labor market performance was achieved despite an increase in social distancing after Trump tested positive for Covid in early October. Hours worked have recovered more than the number of jobs, pointing to the need for more hiring to sustain an exhausting level of economic activity. Disability claims have continued to fall despite the sharp recession, making more persons available for work. Six months after the lockdown recession trough, the number of long-term unemployed is finally rising. The political clamor for stimulus arises because these people not only suffer from unemployment, but they have done so for a long time. ▶