

TRENDMACRO LIVE!

On the November Jobs Report: Payrolls vs the Third Wave

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A big miss, and the least-strong month so far, as social distancing makes a comeback.

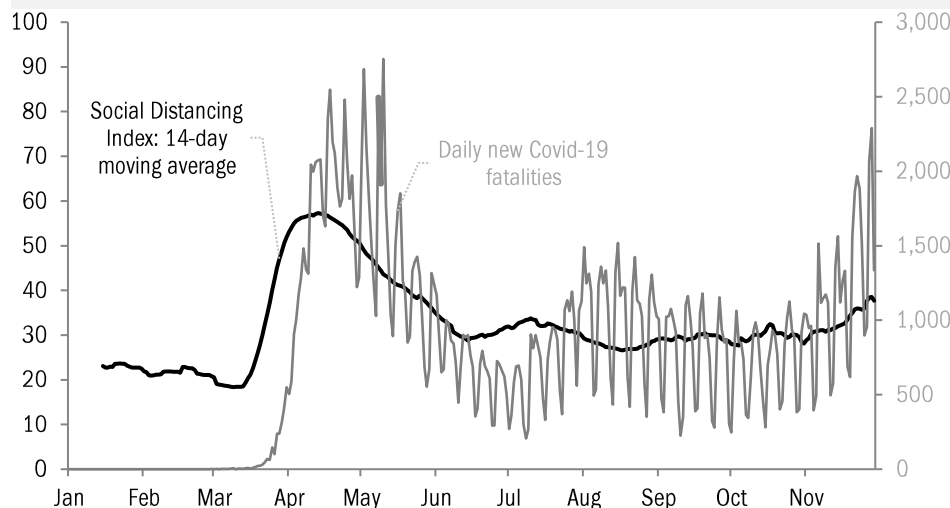
[This morning's November Employment Situation report](#) with 245,000 net payrolls is the least strong jobs report since the April bottom. It's a miss versus the consensus for 460,000 –slightly offset by net upward revisions of 11,000 in the prior two months. It's generally in line with our model estimate of 290,000 based on contemporaneous labor market indicators.

The “household survey” was more disappointing than the “payroll survey,” with employment not gaining at all, but rather dropping by 74,000. Unemployment fell too, by 326,000 – implying that the civilian labor force shrank by 400,000. That means the drop in the unemployment rate to 6.7% from 6.9% is nothing to celebrate.

Does that mean we shouldn't have celebrated the progress of the V-shaped US economic recovery in our video yesterday (see [“Video: What you're not hearing about the third wave of Covid-19 and the V-shaped recovery”](#) December 3, 2020)? Possibly. But as of this writing, markets don't seem worried, with the 10-year yield even backing up to near recovery highs.

- The underlying threat to recovery is simple enough to understand (please see the chart below). Social distancing, which keeps

US economic mobility versus Covid-19 fatalities



Source: [University of Maryland Transportation Institute, Covid Tracking Project](#), TrendMacro calculations

Update to strategic view

US MACRO: November was the least-strong month for jobs recovery since the April bottom. 245,000 payrolls is a big miss versus consensus, but about matched our estimate based on other contemporaneous labor market indicators. The “household survey” was weaker, with a 400,000 shrinkage of the labor force driving the unemployment rate to 6.7%. This corresponds to a backup in social distancing since October as a “third wave” of Covid-19 has arrived. Higher-frequency labor market data, though, does not show the same slowdown. The most reopening-sensitive data such as air passengers and restaurant seatings remains weak, but broader data continues to improve. Authorities and people are increasingly guided by the 85/80 rule, in which 85% of the cases are young people and 80% of the fatalities are older people. The vast majority of workers can stay on the job, risking mostly illness, not death. We don't expect more government stimulus, and don't think that it is necessary. Vaccines will be the ultimate stimulus.

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people from fully engaging in economic activity – whether by government fiat or by choice – is correlated to Covid-19 fatalities. Both have been on the rise since mid-October, with the US entering a “third wave” in the battle with the coronavirus.

- We note that the only major private employment category to shed payrolls in November was the reopening-sensitive retail sector, which had been among the biggest gainers in prior months (see [“Data Insights: Jobs”](#) December 4, 2020). [The Bureau of Labor Statistic’s says](#) that this is “reflecting less seasonal hiring,” but isn’t that the same thing as less hiring?
- Don’t be tricked by the outsized payroll gains in the equally reopening-sensitive transportation sector. It’s mostly “messengers and couriers.”
- Remember, the November jobs numbers are calculated based on data collected early in the month, so they don’t fully reflect the steadily worsening level of social distancing.
- On the other hand, higher-frequency data doesn’t show any disimprovement in the labor market. The unemployment rate implied by weekly jobless claims keeps marching steadily lower, and now stands at 4.3% (see [“Data Insights: High-Frequency Post-Virus US Recovery Monitor”](#) December 3, 2020).
- The high-frequency data does show ongoing difficulty in reopening-sensitive areas such as daily air passenger traffic and restaurant seatings. But year-over-year discount store sales are up 25%. Sales at obsolescent department stores are off 23%, but at the worst of the lockdowns they were down 50%, and this is a new recovery high for them.
- Broader high-frequency data shows no slowdown at all. S&P 500 forward EPS have recovered two thirds of their lockdown losses, and upgrades are starting to come through after a long absence. Rail freight traffic has completely recovered to pre-lockdown levels and shows no recent weakness.
- Markets – or, to be more exact, [market observers](#) – seem obsessed with the possibility of further relief and stimulus. We remain unconvinced that any is coming. But we also remain unconvinced that, absent a lurch to more extreme levels of social distancing than we are seeing now, that stimulus is sufficiently necessary in the short run to justify its costs in the long run.
- The massive stock of personal savings still in place from the spring’s government payments is stimulus enough, whenever consumers choose to stimulate themselves.
- With eight months of acquired experience in dealing with Covid-19, we now know that it operates on an 85/80 rule (again, see [“Video: What you’re not hearing about the third wave of Covid-19 and the V-shaped recovery”](#)). That is, 85% of the cases occur in the 85% of the population that is under 65 years of age. 80% of the fatalities occur in persons 65 and older. Economically, this is a very fortunate configuration – because it means that the majority of the working population faces mostly a risk of illness, not a risk of death. If the older minority can be protected, the great bulk of the economy can operate normally.
- We can’t be certain what government authorities will do if the “third

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wave” worsens – across all the US jurisdictions, there will be a variety of responses with varying degrees of rationality. But we’re quite sure that the most informed community of policy makers understands the 85/80 rule and intends to use it to determine rational policy trade-offs. The leaders of president-elect Joseph R. Biden’s coronavirus task force surely intended to signal this when they said recently, “we’ve got to approach this with the precision of a scalpel rather than the force of an ax” (see [“How Will Biden Govern?”](#) November 20, 2020).

- Workers and consumers will make their own decisions, too. Even if there are no new mandates, some combination of fear and prudence could drive economically destructive self-determined distancing. But we tend to think that people now are pretty rational about this, seeming to understand the 85/80 rule in their own informal way. That is reflected, we think, in the fact that social distancing tracks fatalities, and is only weakly correlated with new cases. People facing lost opportunities to work or be educated seem to be willing to brave illness, not death.
- As the availability of vaccines comes into immediate view, those tradeoffs will no longer have to be made. Vaccines will prove to be all the stimulus we need.

Bottom line

November was the least-strong month for jobs recovery since the April bottom. 245,000 payrolls is a big miss versus consensus, but about matched our estimate based on other contemporaneous labor market indicators. The “household survey” was weaker, with a 400,000 shrinkage of the labor force driving the unemployment rate to 6.7%. This corresponds to a backup in social distancing since October as a “third wave” of Covid-19 has arrived. Higher-frequency labor market data, though, does not show the same slowdown. The most reopening-sensitive data such as air passengers and restaurant seatings remains weak, but broader data continues to improve. Authorities and people are increasingly guided by the 85/80 rule, in which 85% of the cases are young people and 80% of the fatalities are older people. The vast majority of workers can stay on the job, risking mostly illness, not death. We don’t expect more government stimulus, and don’t think that it is necessary. Vaccines will be the ultimate stimulus. ▶