

TRENDMACRO LIVE!

On the November Jobs Report

Friday, December 3, 2021

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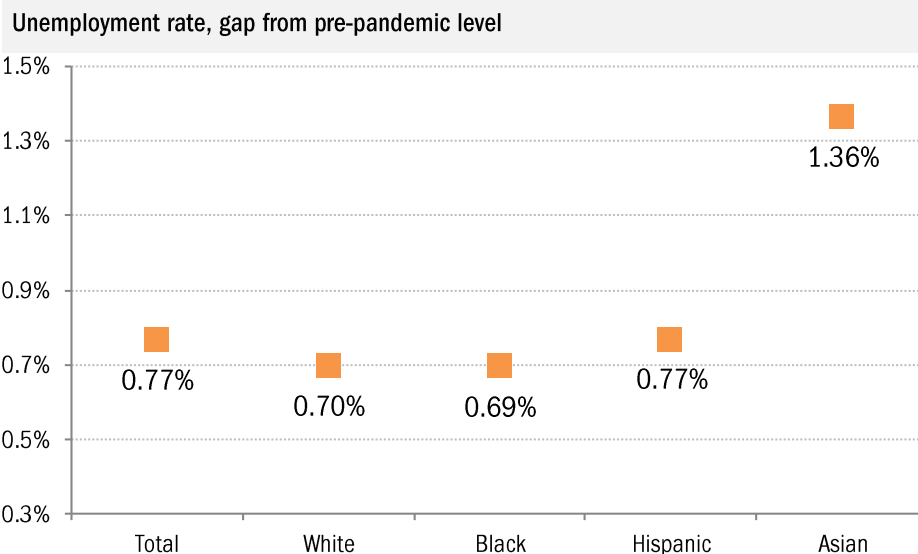
A headline miss, but sharply improving minority unemployment rates point to lift-off.

[This morning's November Employment Situation report](#) with 210,000 net payrolls gained was a substantial miss versus the consensus expectation for 536,000. At least there were substantive upward revisions of 72,000 to the prior two months. Our payroll model, based on contemporaneous labor market indicators, was expecting a miss at 322,000 – so if you build in the revisions, this morning's payroll number was about in line (for the model's inputs, see ["Data Insights: Jobs"](#) December 3, 2021).

- Based on the immediate risk-back-on reaction in markets, this would seem to be the stuff of "Goldilocks" scenarios in which payroll gains are good not great, and the Fed isn't driven to lift off from the near-zero funds rate sooner rather than later.
- But not so fast... That risk-back-on reaction was short-lived. Why?
- *The data from the Bureau of Labor Statistics' "payroll survey" is starkly contradicted by data from its "household survey," which showed employment up by 1.136 million, unemployment down by 542,000 and the labor force larger by 594,000 – leading to an improvement in the unemployment rate to a new post-pandemic low at 4.24%, down from 4.59% the prior month.*
- *Possibly more important, the "household survey" data showed a*

Update to strategic view

US MACRO, FEDERAL RESERVE: A big miss at 210,000 payrolls, offset somewhat by upward revisions to prior months. It is very closely in line with our payroll model based on contemporaneous indicators. Data from the "household survey" is out of line, and far more positive, with a 1.136 million gain in employment, and the labor force expanding by 594,000, driving the unemployment rate down to 4.24%. Unemployment rates for blacks, Hispanics and Asians fell more than for whites, bringing their respective gaps from pre-pandemic levels closer to parity, and pointing toward earlier than expected achievement of the Fed's lift-off criterion for "inclusive" maximum employment. But labor force participation remains low overall versus pre-pandemic benchmarks, disproportionately so for blacks. If the "household survey" data is indicative, markets may be right to expect lift-off by summer. But that wouldn't be hawkish – rather than an inappropriate political reaction to exaggerated inflation concerns, it could be an appropriate adjustment reflecting recovery and growth.



Source: BLS, TrendMacro calculations

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sharp drop in minority unemployment rates – by 1.2% for blacks, 0.7% for Hispanics, and 0.4% for Asians – bringing them closer to parity with whites, in terms of the residual gap to return to pre-pandemic levels (please see the chart on the previous page).

- The Fed won't lift off until its criterion for "inclusive" maximum employment is met (see ["Video: What you're not hearing about the Fed's liftoff from zero policy rates"](#) October 26, 2021) – and these sharp drops in minority unemployment imply it could be met in Q1-2022.
- But it's a little bit complicated...
- First – we need to take this buoyant data with a grain of salt. It is out of line with our model, suggesting it is out of synch with other contemporaneous data that could validate it, while the "payroll survey" model is closely aligned. And who's to say scorching numbers like these can be maintained?
- But that aside, unemployment rates aren't the only dimension of "maximum employment." They don't even consider how many people have totally dropped out of the labor force. At 594,000 new entrants, this morning's "household survey" data did show a nice month of recovery for labor force participation. But it was all whites and Hispanics – black labor force participation actually fell by 97,000, which computationally contributes to that group's outsized drop in the unemployment rate.
- From pre-pandemic levels, black labor force participation is off by 457,000 out of 2.39 million nation-wide, far out of proportion to that group's population share. That said, Hispanic labor force participation is actually higher by 196,000 than before the pandemic, as it is even more so for Asians at 225,000. So it's a very mixed picture.
- We don't think we'll see complete restoration of the labor force in Q1-2022, even if we do see unemployment rates back to pre-pandemic levels. Hard to call that maximum employment, and any lingering disparity in black participation would strongly cut against calling it "inclusive."

Despite a disappointing payrolls number, the "household survey" data, at least directionally, does support the market's move toward expecting lift-off by mid-year. But that doesn't mean that the Fed has turned hawkish (see ["Hawkish Powell? Not a Chance."](#) December 1, 2021).

- A hawkish Fed is one that gets captured by political narratives exploiting inflation fears, and tightens policy to solve what we think is a non-problem – or even granting it's a problem in some dimension, it's not a monetary problem and the Fed can only impose monetary solutions (see ["Is Inflation Still 'Transitory'?"](#) October 13, 2021).
- What would be hawkish about a Fed that lifts off when "inclusive" maximum employment is met? To be sure, we'd have to see what else was going on in the background economy – particularly, we'd need to be sure that inflation expectations hadn't become unmoored to the downside, like they have been for most of the last seven years.

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- There is no reason to believe that continued recovery and growth require a near-zero policy rate forever. Indeed, when the natural rate of interest is restored in a booming post-pandemic economy, growth will be best served by lift-off.

Bottom line

A big miss at 210,000 payrolls, offset somewhat by upward revisions to prior months. It is very closely in line with our payroll model based on contemporaneous indicators. Data from the “household survey” is out of line, and far more positive, with a 1.136 million gain in employment, and the labor force expanding by 594,000, driving the unemployment rate down to 4.24%. Unemployment rates for blacks, Hispanics and Asians fell more than for whites, bringing their respective gaps from pre-pandemic levels closer to parity, and pointing toward earlier than expected achievement of the Fed’s lift-off criterion for “inclusive” maximum employment. But labor force participation remains low versus pre-pandemic benchmarks overall, disproportionately so for blacks. If the “household survey” data is indicative, markets may be right to expect lift-off by summer. But that wouldn’t be hawkish – rather than an inappropriate political reaction to exaggerated inflation concerns, it could be an appropriate adjustment reflecting recovery and growth. ▶