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TRENDMACRO LIVE!

On the November Jobs Report

Friday, December 2, 2022

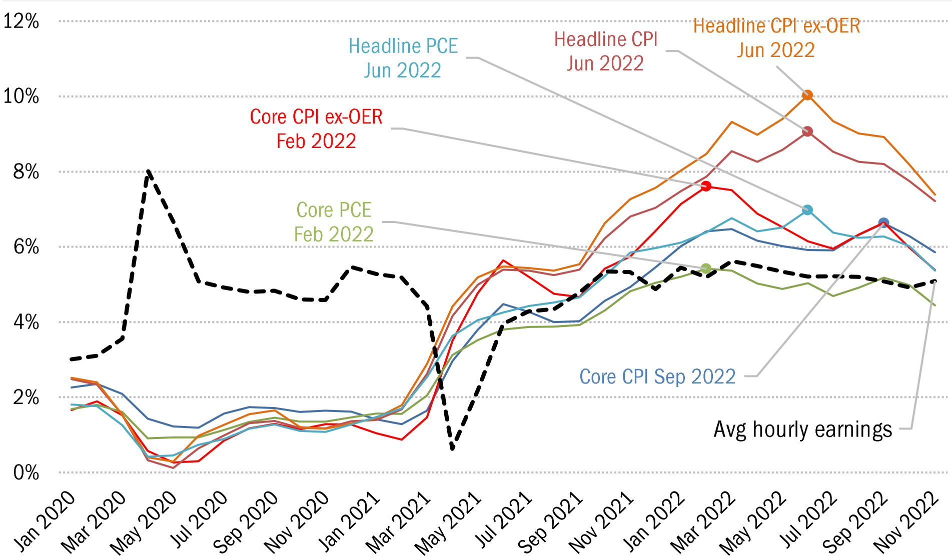
Donald Luskin

No sign of recession here. With the Fed promising to slow down, good news is good news.

This morning's November Employment Situation report was the third in a row with net payroll gains at about 260,000 – it was 263,000 to be exact (but the coincidence is blunted somewhat by an upward revision to October by 23,000, and a downward revision to September by 43,000). This beat the consensus expectation for 200,000, and our model's expectation for 136,000. The unemployment rate, rounded for public consumption to 3.7%, was unchanged (but it actually contracted by 3 bp, unrounded – please see "Data Insights: Jobs" December 2, 2022).

- With all the revisions, this stands as the smallest payroll number this year. But we'd expect payroll growth to slow the further we get from the labor catastrophe of the pandemic lockdowns. Besides, 263,000 is almost three times the 90,000 people who could come afresh to the labor force in any given month given how many reach adulthood or get a green card. *This in no way points to recession*.
- Neither are we concerned by yet another month in which payrolls expanded (according to the "payroll survey") but employment contracted (by 138,000, according to the separate "household

Inflation measures versus average hourly earnings (YOY)



Source: BLS, TrendMacro calculations

Update to strategic view

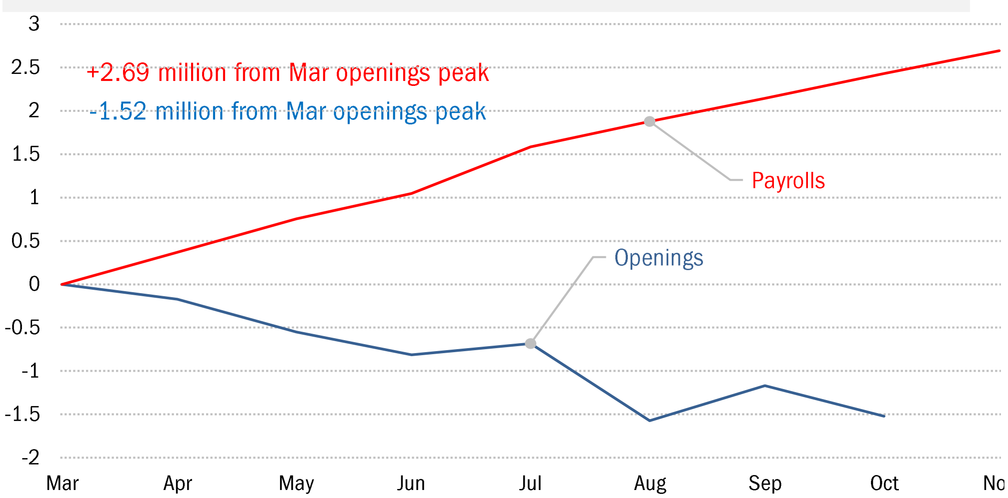
US MACRO, FEDERAL RESERVE: 263,000 payrolls is the weakest this calendar year, but it's not a sign of recession. It's three times more than the number of persons who age into the labor force or get a green card. The unemployment rate fell slightly. Employment in the household survey fell, another month of contradiction to the payroll survey – but on a payroll basis, the household survey shows almost the same gains. The 0.55% gain in average hourly earnings is the second hottest this year, Powell believes this is the root cause of inflation. There has been no relationship between wages and inflation (inflation has moderated a lot while wage growth has only moderated a little). Openings are down – but that's a function of having filled them with payroll growth. With the Fed's promise to slow down the pace of rate hikes, all that matters to policy is the continued decline of inflation.

[Strategy dashboard]

survey"). When the household results are put on a payroll computation basis (for instance, counting a single employed person with three jobs as three jobs, not one) there's a household gain of 228,000.

- *The immediate market reaction was sharply risk-off – surely triggered not by the payroll gains themselves, but by the month-on-month gain in average hourly earnings of 0.55% – the second biggest such gain this year*.
- Fed Chair Jerome Powell insists that wage growth feeds inflation, and argues that the Fed's blunt tools can be used to reduce that growth (see "On Powell at Brookings" November 30, 2022). He is objectively wrong – wage growth has shown no relation to the trajectory of price indices during the pandemic era (please see the chart on the first page). If anything, year-on-year wage growth (which was barely perturbed by this morning's monthly number) can be said to have peaked this year at about the same time as inflation. But that's torturing the data, and it says nothing about cause and effect.
- Powell's whole outlook on the labor market is flawed. He constantly harps on the record number of job openings as evidence that the labor market is excessively tight (presumably leading to high wages that presumably lead to higher inflation).
- If that concerns him so much, he should give some credit to the fact that job openings reported in the JOLTS survey are off 1.52 million from their 11.85 million peak in March please see the chart below). That decline is likely not because of the coincidence that the Fed lifted off from a zero policy rate in the same month as the peak in openings. No, it's explained – way more than explained – by the fact that payrolls have grown 2.29 million since then. *The openings didn't go away because Fed policy made employers more cautious – no, they went away because they got filled, which is why they existed in the first place*.
- *But it doesn't matter whether Powell is objectively wrong, because*

Gains in payrolls versus loss in job openings, from March 2022 (millions)



Source: BLS JOLTS, TrendMacro calculations *he has real-world power to cause a recession by acting on his errors*.

- That drive's this morning's classic "good news is bad news" reaction. This too, is an error in its own way. If we need evidence in data that a recession is coming to keep the Fed from causing a recession, then we get a recession either way. *There is no distinction, then, between good news and bad news. It's all bad so long as the Fed avowedly wishes to cause a recession*.
- But none of this matters beyond the scope of a few hours in markets. This morning's jobs report shows no sign of recession after eight months of Fed tightening, much of which has been highly aggressive. Inflation has peaked (again, please see the chart on the first page). The Fed has declared in writing that it will retreat to smaller rate hikes, in order to appraise policy lags (see "On the November FOMC" November 2, 2022). *In the race between the tortoise (moderating inflation) and the hare (a hyper-aggressive Fed), the hare has just slowed down* – precisely as in Aesop's fable. *So it doesn't matter that Powell keeps saying the terminal rate in this cycle could be higher-and-longer*. We'll never get there. The race doesn't go to the swiftest.

Bottom line

263,000 payrolls is the weakest this calendar year, but it's not a sign of recession. It's three times more than the number of persons who age into the labor force or get a green card. The unemployment rate fell slightly. Employment in the household survey fell, another month of contradiction to the payroll survey – but on a payroll basis, the household survey shows almost the same gains. The 0.55% gain in average hourly earnings is the second hottest this year, Powell believes this is the root cause of inflation. There has been no relationship between wages and inflation (inflation has moderated a lot while wage growth has only moderated a little). Openings are down – but that's a function of having filled them with payroll growth. With the Fed's promise to slow down the pace of rate hikes, all that matters to policy is the continued decline of inflation.