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TRENDMACRO LIVE!

On the September Jobs Report

Friday, October 6, 2023

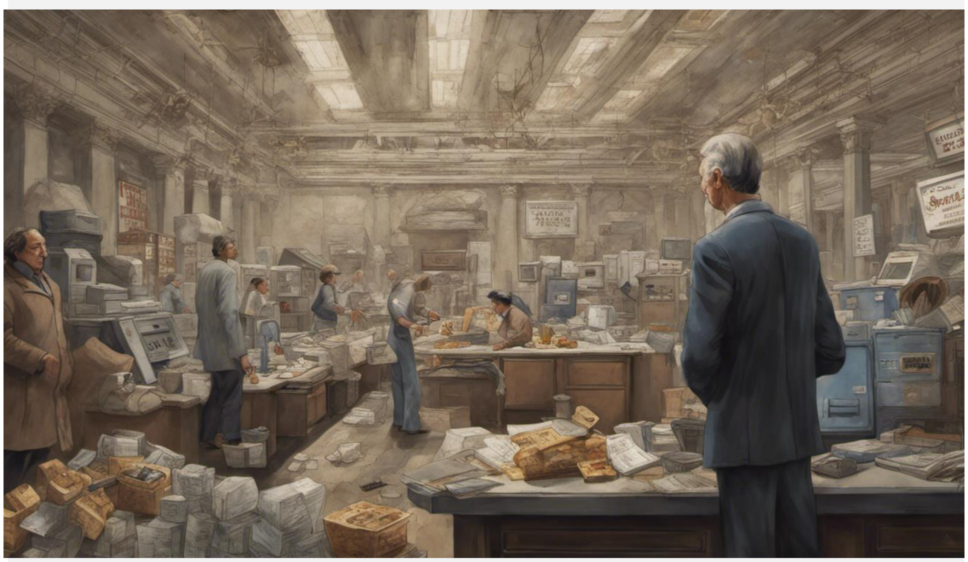
Donald Luskin

Powell believes many things that aren't true. This fake payroll beat may be one of them.

It's hard to keep your priors from tricking you into viewing incoming data with confirmation bias. Our prior is that the global economy is in a post-pandemic productivity-led boom (see, most recently, "Video: What you're not hearing about why a 4.5%-plus 10-year Treasury yield is actually a good thing" September 28, 2023). So today's Employment Situation Report with 336,000 net payrolls gained, versus a consensus for 170,000, fits right in. *Unfortunately, that number is utterly absurd – falsified by virtually every other contemporaneous labor market metric.* Our model based on those metrics puts jobs growth at 118,000 (see "Data Insights: Jobs" October 6, 2023). That's a perfectly fine number. Nothing indicating pending recession.

And more unfortunately, Fed chair Jerome Powell's prior is that "the labor market's strong. …that just means we'll have to do more in terms of monetary policy to get back to 2 percent [inflation]." Crazy labor market statistics are the least of our problems. *A crazy Fed chair, who thinks prosperity causes inflation – and who doesn't question why inflation has*

Generative AI token: "The Fed keeps thinking that people having jobs is what causes inflation"



Source: DreamStudio running SDXL 1.0

Update to strategic view

US MACRO, FEDERAL RESERVE: A huge beat with 336,000 net payrolls, all the more amazing for strong upward revisions to the prior two months. It is not plausible, flying in the face of a panoply of other labor market metrics, and the "household survey" that showed an increase in employment of only 86,000 (indeed, a contraction of 7,000 on a "payroll basis"). Seasonal and birth-death adjustments don't explain it (they cut the other way). However implausible, there's nothing here to suggest pending recession. It's a hawkish headline for Powell who seems to always cherry-pick the worst from among available data. That said, average hourly earnings growth is the lowest in nine months, on the back of a downward revision to last month's, and now below the long-term historical average. The money-market curve is still only giving a fifty-fifty chance of one final rate hike, cumulatively over the next three FOMCs. We'll take the under: zero and done.

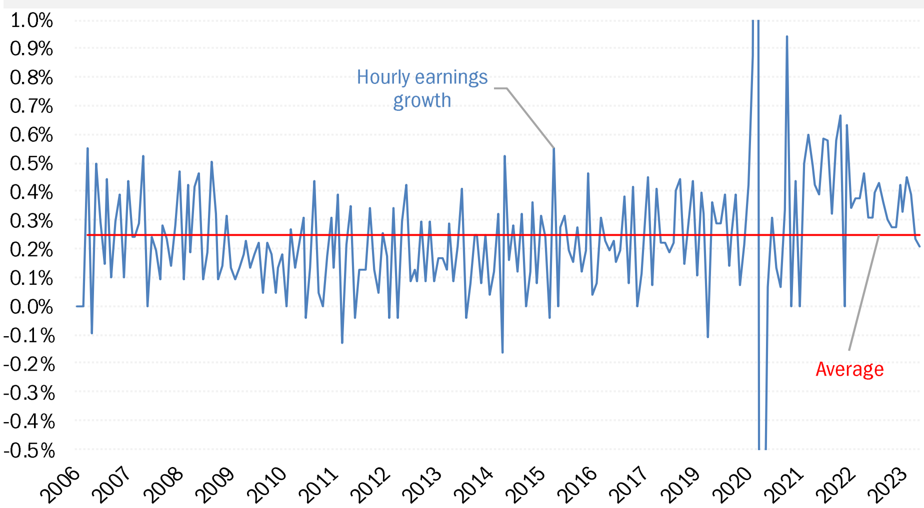
[Strategy dashboard]

<u>been collapsing since its peak mid-last year despite that prosperity – is the real problem for markets and the economy</u>.

All the more problematic if the Fed keeps policy rates higher-for-longer for the sake of a *double*-delusion. *<u>Not only does a strong jobs market not cause inflation, but this September jobs report isn't as strong as the headline looks</u>*.

- The implausible 336,000 payrolls is all the more so coming on the back of large upward revisions of 40,000 and 79,000 payrolls for August and July (decisively breaking the much-commented streak of downward revisions this year, and requiring the formulation of all new conspiracy theories).
- Looking at September on a non-seasonally adjusted basis makes it no less implausible, at an even larger 585,000 payrolls gain. And we can't blame the notorious "birth-death adjustment," which actually *subtracted* 119,000 (again, see "Data Insights: Jobs").
- In contrast to the seasonally adjusted 336,000 net payrolls, employment according to the alternate Current Population Survey – the "household survey" – grew by only 86,000. That's less than the Current Employment Statistics Survey – the Establishment Survey, or the "payroll survey" – showed just for the leisure sector alone (again, see "Data Insights: Jobs").
- *<u>Adjusted to a "payroll basis," employment actually fell by 7,000</u>*.
- Powell can see that, of course. But so far his priors have always caused him to cherry-pick the most hawkish elements from diverse data-sets.
- He should also be able to see that average hourly earnings, at 0.21% in September, showed the slowest growth in 19 months, even with a large downward revision to the prior month. *<u>Someone should point out to our esteemed Fed chair that this is below the 0.25% average over the life of the data. So if he really wants to believe that wage growth causes inflation, there isn't any worth</u>*

Average hourly earnings (month over month)



Source: BLS, TrendMacro calculations

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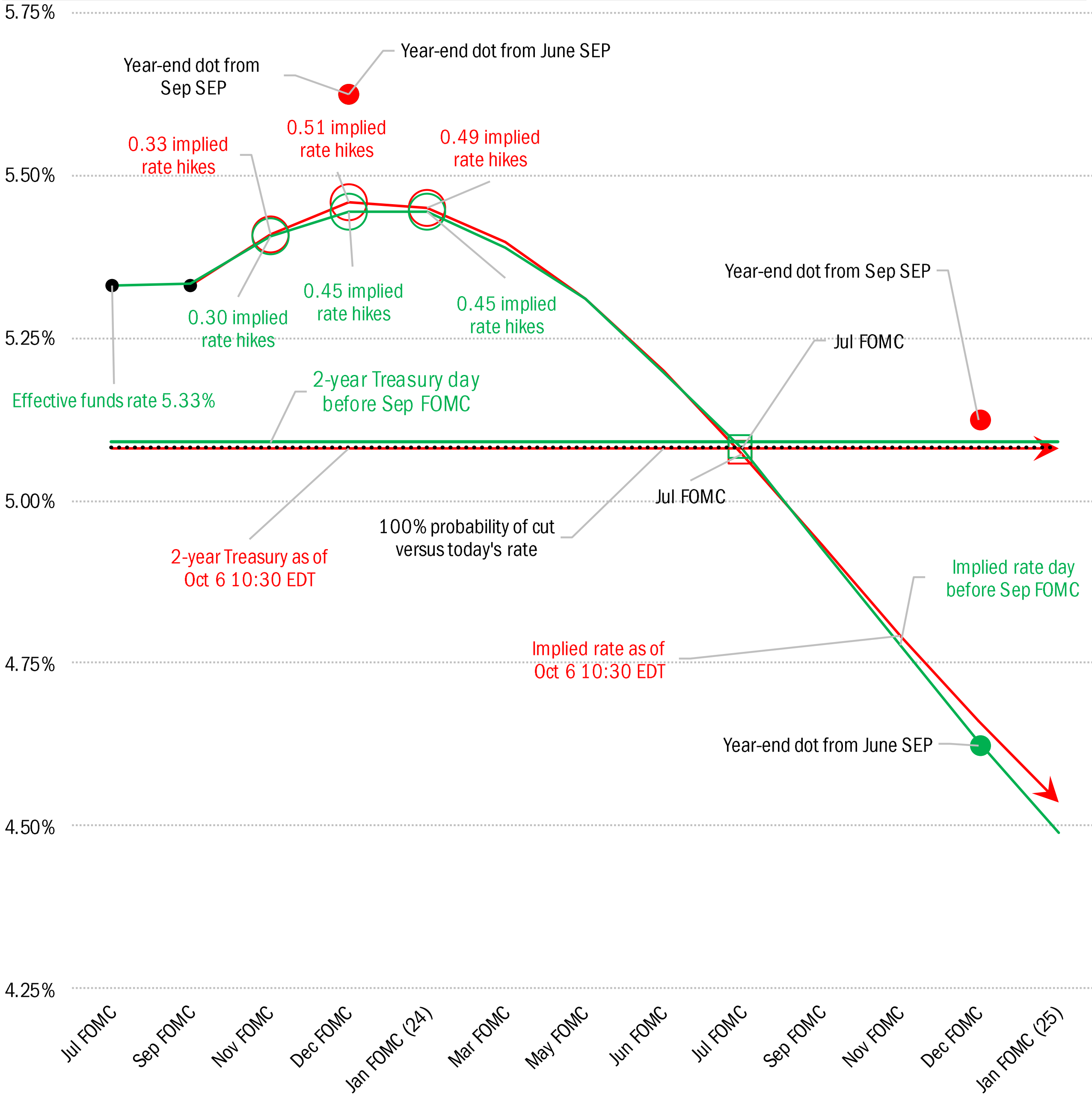
worrying about now (please see the chart on the previous page). The same is true on a trailing 12-month basis.

As of this writing, the money-market curve has chosen to treat this morning's jobs report as unhelpful, but not game-changing for the Fed. The futures-implied chances of a single rate hike all the way through the January FOMC, cumulatively, is only about 49%. It was already 45% before the September FOMC meeting (see [“On the September FOMC”] September 20, 2023, and the chart below). The futures-implied 100% probability of the first rate cut remains at the July 2024 FOMC.

Futures-implied funds rate, by FOMC meeting



Source: Bloomberg, TrendMacro calculations

We continue to believe that the present disinflation will continue and accelerate – so given the fifty-fifty market-implied chances of one last rate hike, we're taking the under. Zero and done.

And when disinflation continues past the Fed's targets and becomes outright deflation, the first rate cut will surely come earlier than the July FOMC meeting now implied by markets.

Bottom line

A huge beat with 336,000 net payrolls, all the more amazing for strong upward revisions to the prior two months. It is not plausible, flying in the face of a panoply of other labor market metrics, and the "household survey" that showed an increase in employment of only 86,000 (indeed, a contraction of 7,000 on a "payroll basis"). Seasonal and birth-death adjustments don't explain it (they cut the other way). However implausible, there's nothing here to suggest pending recession. It's a hawkish headline for Powell who seems to always cherry-pick the worst from among available data. That said, average hourly earnings growth is the lowest in nine months, on the back of a downward revision to last month's, and now below the long-term historical average. The money-market curve is still only giving a fifty-fifty chance of one final rate hike, cumulatively over the next three FOMCs. We'll take the under: zero and done.