Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the October Jobs Report

Friday, November 3, 2023

Donald Luskin

You've heard about "bad news is good news." Now meet "good news is good news."

It doesn't get more Fed-friendly than this – and it confirms our bullish hot take at Wednesday's FOMC, when markets weren't reacting at all (see "On the November FOMC" November 1, 2023), *that this rate hiking cycle is over and the rate cuts will come sooner than previously expected.*

- *To be sure, you're going to be hearing all day about how recessionary today's Employment Situation Report is*, with only 150,000 net payrolls (a miss versus the consensus at 180,000) and big downward revisions to the prior two months – and a rising unemployment rate, with employment losses in the Current Population Survey – the "household survey". *We don't believe that*.
- *There's nothing recessionary about 150,000 net payrolls. If history has taught us anything, it is that when payrolls are rising we are still in a business cycle expansion* (please see the chart on the following page and, most recently, and among many, "Video: What you're not hearing about the steepening yield curve" October 10, 2023). And it's well above our estimate that the dial-tone for payrolls is only about 90,000, based on adult population growth and

Generative AI token: "The US labor market employed more people than there were to employ. Not bad."

Source: DreamStudio running SDXL 1.0

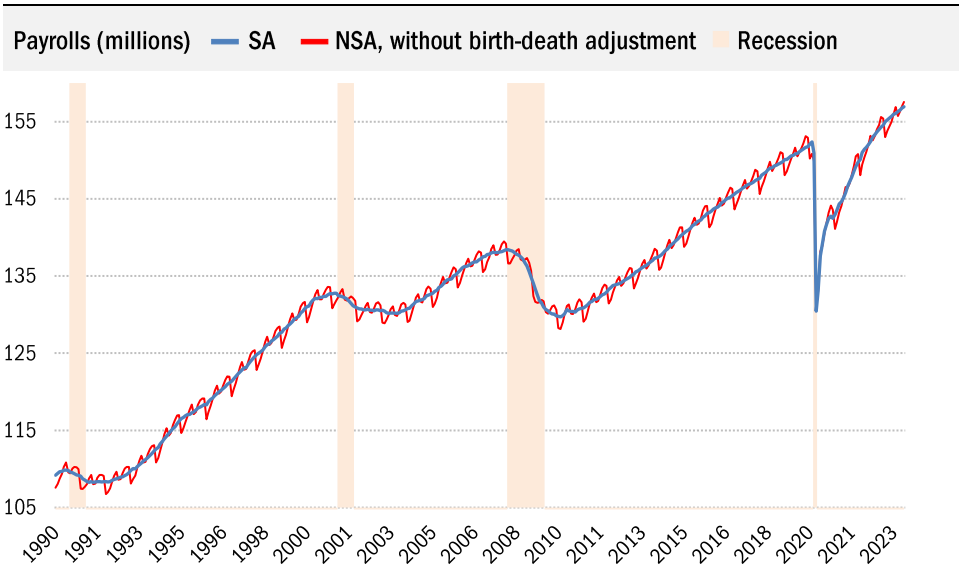
Update to strategic view

US MACRO, FEDERAL RESERVE: The October jobs numbers slam the door on any possibility of one more Fed rate hike. It's better than the usual "bad news is good news" cliché because the Fed will treat it as bad news, but it isn't really. 150,000 is a miss, but it is an objectively strong number. It is contradicted by employment contraction in the "household survey," but when put on a "payroll basis" employment is even stronger than payrolls. And the payrolls number is confirmed overall by all other contemporaneous labor market indicators. Average hourly earnings growth is slowest in 20 months, and this (erroneously, but nevertheless) is the Fed's key inflation predictor. With downward revisions to the prior two months' too-good-to-be-true payrolls, this makes true the FOMC's false statement Wednesday that the labor market has moderated since the beginning of the year. The money-market curve shows the first rate cut in June. We continue to think it will be sooner.

[Strategy dashboard]

labor force participation norms.

- Our forecasting model based on a panoply of other contemporaneous labor market metrics estimated October payroll growth at 152,000 (see "Data Insights: Jobs" November 3, 2023). That confirms today's number virtually perfectly. And downward revisions to August's and September's too-good-to-be-true payroll numbers – 39,000 and 62,000 respectively – moves them in the direction of our model's more modest calls for those months.
- You'll be hearing all day that the only reason payrolls were positive at all for October is because of the notorious "birth-death adjustment," which added 412,000. That normally gets mentioned in the same conspiracy-theory breath as the seasonal adjustment factor – but you won't be hearing about that today, because without it payrolls would have grown by 1.06 million (again please see chart below, and "Data Insights: Jobs").



Source: BLS, NBER, TrendMacro calculations

- Any we're not going to stress about yet another disjunction between payrolls showing growth of 150,000 and employment per the "household survey" showing contraction of 348,000. *Adjusted to a "payroll basis," employment actually grew by 180,000*.

As to the Fed, it would be enough to make this strong jobs report dovish simply to look at the one key number they watch more closely than any other: *average hourly earnings grew only by only 0.21% month-over-month, the slowest pace in 20 months*. We don't think higher wages cause inflation, but the Fed does.

- More broadly, today's payroll number and the revisions to the prior two months makes true something they said in Wednesday's FOMC statement – which was actually untrue then when they said it: "Job gains have moderated since earlier in the year…"
- This is absolutely critical, because it nails down one of the three legs in the Fed's outlook that rules out any more rate hikes – the

Contact TrendMacro

On the web at
trendmacro.com

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Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

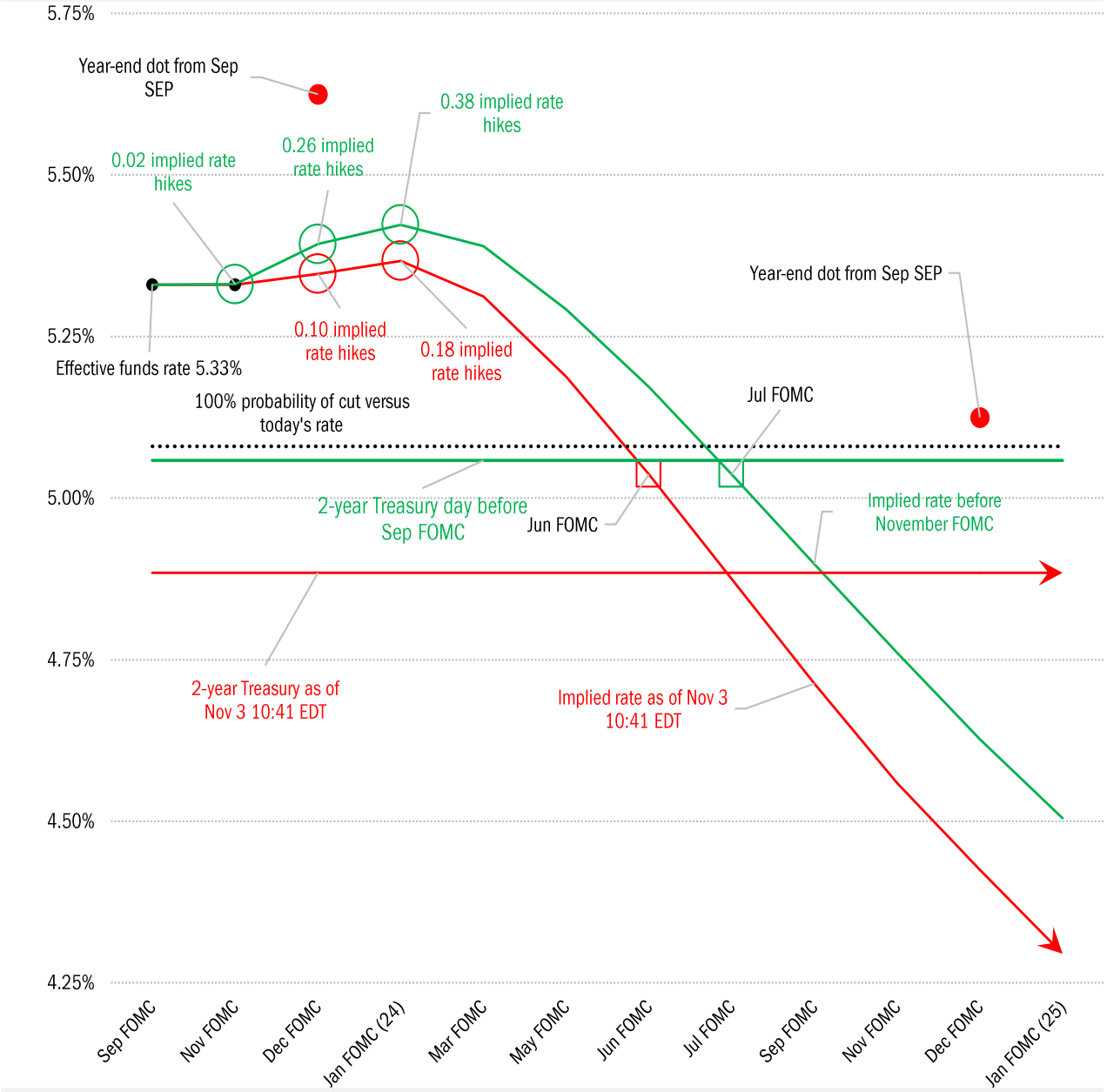
Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]

other two being the belief that booming Q3-2023 real GDP growth is merely "strong" and can be ignored, and that "tightening financial conditions" – that is, higher long-term yields – effectively substitute for policy tightness (again, see "On the November FOMC").

- *This is way better than mere "bad news is good news" dogma. This is "good news is good news." Today's jobs report is good news. Q3 real growth is good news* (see "That Quarter, Those Yields, This Correction" October 27, 2023). *Higher yields are good news* (see "Video: What you're not hearing about why a 4.5%-plus 10-year Treasury yield is actually a good thing" September 28, 2023). *This looks like a golden moment in which the Fed, for whatever reason,*

Futures-implied funds rate, by FOMC meeting



Source: Bloomberg, TrendMacro calculations

and perhaps just by the luck of the draw in their rudderless policy framework, is going to treat good news as bad news. Which is very good news.

- As of this writing, the money-market curve has strongly moved to the dove-side in comparison to its posture before Wednesday's FOMC. The cumulative probability of one last rate hike has fallen from 38% to 18%. And the first FOMC meeting with a futures-implied 100% probability of a rate cut has advanced from July to June.
- We continue to think it will be even sooner.

Bottom line

The October jobs numbers slam the door on any possibility of one more Fed rate hike. It's better than the usual "bad news is good news" cliché because the Fed will treat it as bad news, but it isn't really. 150,000 is a miss, but it is an objectively strong number. It is contradicted by employment contraction in the "household survey," but when put on a "payroll basis" employment is even stronger than payrolls. And the payrolls number is confirmed overall by all other contemporaneous labor market indicators. Average hourly earnings growth is slowest in 20 months, and this (erroneously, but nevertheless) is the Fed's key inflation predictor. With downward revisions to the prior two months' too-good-to-be-true payrolls, this makes true the FOMC's false statement Wednesday that the labor market has moderated since the beginning of the year. The money-market curve shows the first rate cut in June. We continue think it will be sooner.