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

TRENDMACRO LIVE!

On the November Jobs Report

Friday, December 8, 2023

Donald Luskin

The recession consensus is disappointed again. But the curve still expects rate cuts soon.

SPECIAL NOTICE: Bloomberg, our source for most of our macroeconomic data series, has been unable to update its database for this morning's jobs numbers. We will publish "Data Insights: Jobs" as soon as data becomes available. In the meantime…

Today's Employment Situation Report is, in some ways, a blockbuster, demonstrating once again that we have been right to stand against the relentless consensus of recession narratives.

- 199,000 net payroll gains somewhat exceeded the consensus for 183,000 – all the more so considering downward revisions of 35,000 to the prior two months. 28,000 were in the manufacturing sector, arguably the idiosyncratic result of the settlement of auto strikes (though those same strikes were blamed for 35,000 payroll losses last month).
- You will hear that this means jobs growth is "slowing" – yes, versus the monthly gains a year ago when so many workers were still flooding back from pandemic lockdowns. But given the organic

Generative AI token: The consensus says, "Please let me have a recession just so I can finally be right!"

Source: DreamStudio running SDXL 1.0

Update to strategic view

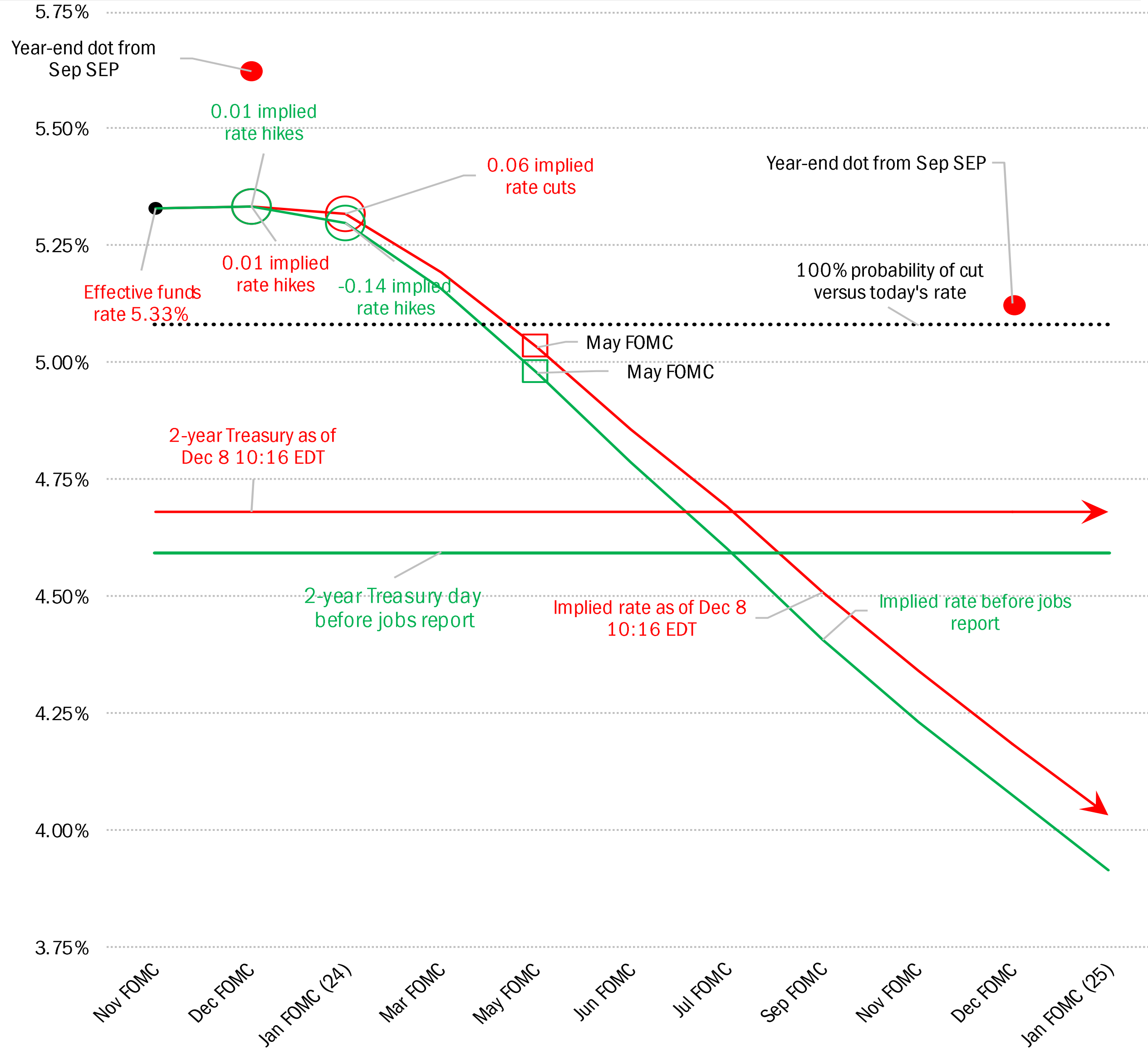
US MACRO, FEDERAL RESERVE: A beat in payrolls, with 199,0000 net gains. But employment in the "household survey" grew by an enormous 747,000 (still 483,000 on a "payroll basis"). The labor force expanded by 532,000, more than all of whom were immediately employed, driving the unemployment rate down from 3.9% to 3.7%. This resoundingly contradicts consensus recession expectations. Clearly the Fed has not been as tight as it apparently has thought. At the margin this reduces any urgency to cut rates, but is surely insufficient to make a case for hiking them. November CPI will be available to the Fed before next Wednesday's FOMC, and it will show a second month of outright deflation. In this setting, the curve this morning has taken away half a rate cut for 2024, but the first cut is still fully discounted for the May FOMC. We continue to think it comes in March when deflation is more conspicuous.

[Strategy dashboard]

growth rate of the US adult population, the baseline is about 90,000 new payrolls every month, and this is more than twice that.

- And in a reversal versus last month, and several other months this year, employment growth in the Current Population Survey – the "household survey" far exceeded that in the Current Employment Statistics survey – the "payroll survey" – at 747,000. Adjusted to a "payroll basis," it's still 483,000.
- The labor force expanded by 532,000 – more than all of whom got jobs in the first month of looking. So despite this massive and welcome influx into the labor force, the unemployment rate fell from 3.9% to 3.7%.
- What does it mean that the labor market is this strong 21 months after the Fed lifted policy rates from zero, and 12 months after it completed a back-to-back-to-back-to-back series of four 75 bp rate hikes designed specifically to weaken the labor market?
- *It means that much of this scorched-earth tightening program wasn't "tightening" at all, in the usual sense – but rather "normalizing."* We can't be sure (neither can the Fed), but at some point from zero to the present funds rate of 5-3/8%, policy became restrictive. But for labor markets to be as robust as today's data shows them to be, and for that matter for the overall economy to be putting up real growth numbers like Q3's upwardly revised 5.2% at an annual rate, it simply must be that the restrictive policy rate is higher than we have come to expect during the post-Global Financial Crisis years of "secular stagnation," so the Fed is simply not as tight as one might have thought.
- Or… perhaps not as tight as the Fed itself might have thought. If they wish to cling to their Big Lie that growth causes inflation – even in the presence of current data showing growth strong at the same time as inflation falls (see "As Inflation Collapses, the Fed Clings to The Big Lie" November 30, 2023) – data like this morning's moves them toward the hawkish. We are certain this is not sufficient to drive another rate hike – July's was the last. After all, the Fed paused twice in the face of that scorching Q3 GDP data. But surely, at the margin, this reduces the urgency to cut rates.
- And the Fed will look with caution on the 0.35% growth in average hourly earnings (4.32% at an annual rate). The critical subcomponent of the Big Lie that growth causes inflation is that growth causes wage gains that cause inflation (because the Fed sees workers as units of *demand* – mere mouths; it denies their brains and their hands that make them units of *supply* as well; throw them out of work and, yes, demand is reduced but supply is probably reduced more because the more efficient marginal item is not produced).
- *Since the jobs data was released this morning, futures markets continue to more than fully discount the first cut coming at the May FOMC and a 50/50 shot that the first cut will come in March. There remains even a slim chance of a cut in January* (please see the chart on the following page).
- *But the curve has reduced the number of expected 25 bp cuts by year-end 2024 from about 5 to about 4-1/2.* That still takes the

Futures-implied funds rate, by FOMC meeting



Source: Bloomberg, TrendMacro calculations

funds rate to about 4-1/8% at year-end 2024, while the “dot plot” from the [September FOMC’s Summary of Economic Projections] stands a percentage point higher at 5-1/8%.

- This isn’t the last important data point the Fed will see before it convenes next Wednesday for the December FOMC. The November Consumer Price Index will be published the day before, and we are quite sure it will be the second-in-a-row showing outright deflation for the month.
- And this morning inflation expectations [from the University of Michigan survey] collapsed to 3.1% from last month’s potentially disturbing 4.5%.
- All this will make for a difficult narrative for a Fed chair who has gone from embarrassing himself by calling inflation “transitory” to

embarrassing himself by calling it “sticky.” But it really doesn’t matter what words he uses next week. We still take the “over” and say the first cut will come at the March FOMC, when evidence of deflation is unmistakable.

Bottom line

A beat in payrolls, with 199,0000 net gains. But employment in the “household survey” grew by an enormous 747,000 (still 483,000 on a “payroll basis”). The labor force expanded by 532,000, more than all of whom were immediately employed, driving the unemployment rate down from 3.9% to 3.7%. This resoundingly contradicts consensus recession expectations. Clearly the Fed has not been as tight as it apparently has thought. At the margin this reduces any urgency to cut rates, but is surely insufficient to make a case for hiking them. November CPI will be available to the Fed before next Wednesday’s FOMC, and it will show a second month of outright deflation. In this setting, the curve this morning has taken away half a rate cut for 2024, but the first cut is still fully discounted for the May FOMC. We continue to think it comes in March when deflation is more conspicuous.