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

TRENDMACRO LIVE!

# On the January Jobs Report

Friday, February 2, 2024

**Donald Luskin**

**Data-nerds of the world unite. With January jobs you have nothing to lose but your confusion.**

On the face of it, today's January 2024 Employment Situation Report with 353,000 net new payrolls is a blockbuster and a half, beating the consensus for 185,000 by a mile. But no, *beneath the surface it's even better than that*.

- The 353,000 payroll gains stands on top of upward revisions to November and December, 9,000 and 117,000 respectively (see "Data Insights: Jobs" February 2, 2024).
- These revisions are part of the annual benchmarking process that backwardly revises the Current Employment Statistics survey – the "payroll survey" – for the entire prior year. Overall, at year-end 2023, payroll employment at 157,347 is now reported 115,000 higher than previously published. Adjustments were made in all twelve months, with nine monthly change-figures revised upward. *So much for narrative from the recession camp that there is something wrong with the labor market because of persistent downward revisions.*
- Employment in the Current Population Survey – the "household

Generative AI token: Let's revise and adjust and re-benchmark everything so we can make it as hard as possible for people to understand the labor market, in style of Mao-era poster

Source: DreamStudio running SDXL 1.0

**Update to strategic view**

**US MACRO, FEDERAL RESERVE, US BONDS:** A blockbuster with 353,000 net new payrolls on top of large upward revisions. The annual benchmark process has upgraded payroll employment by 115,000 at December. Monthly change-figures were revised higher in nine of twelve months, demolishing the narrative that persistent downward revisions showed labor market weakness. The "household survey" reported employment falling by 31,000. But properly accounting for annual adjustments to population controls that make January-over-December comparisons otherwise impossible, employment actually grew by 239,000 – ratifying the payroll number. Average hourly earnings grew 0.55%, the fastest rate in 22 months, on top of a large upward revision to December's already hot number. With this, the market-implied probability of a March FOMC rate cut has fallen to 23%. There will be two CPI reports before then, both disinflationary or downright deflationary. We will take the over on that probability.

[Strategy dashboard]

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survey" – was reported down 31,000, and unemployment down 144,000. But this is an artifact of yet another annual revision process – in this case, adjustments to the population controls used to tabulate the survey. This makes the survey useless for making month-on-month comparisons between December and January. *But by our method of making appropriate adjustments, employment is in fact up 239,000 – ratifying the payroll report. Unemployment is down 116,000.*

- Similarly, the labor force was reported as having contracted by 175,000, but our adjustment showed it in fact expanded by 124,000.
- *There's no confusion in the unemployment rate, since the adjustments equally affect the numerator and denominator. It fell 8 bp to 3.66%.*
- And if all this isn't confusing enough, there's one item that the recession camp can cling to for warmth: *without seasonal adjustments, payrolls would have not been up by 353,000 but down by 2.6 million*. Don't get too excited. It happens every January – that's why they call it seasonal (last year it was 2.7 million).

*What will the Fed think?*

- The most critical number today was not dove-friendly. For FOMC members and Fed staff who still think, despite all recent and historical evidence, that wage growth causes inflation, they're not going to like average hourly earnings growing 0.55% month-on-month, the hottest rate in 22 months (and on the heels of another big one in December, which itself got revised higher by 11 bp this morning).
- Fed Chair Jerome Powell gave mixed signals at this week's FOMC about the extent to which the Fed is still obsessed with this metric (see "On the January FOMC" January 31, 2024). He put strong emphasis, instead, on the Committee's need to see "further evidence" that inflation has returned to target. *There will be one more jobs report before the March meeting, and we have no reason to think it will be weak. There will be two Consumer Price Index reports before the meeting, and we remain very strongly convinced they will be very disinflationary if not downright deflationary. That's what Powell is clear that he is looking at – to the extent he can be clear about anything.*
- As of this writing, the market-implied probability of a rate cut in March is at 23%, down from 38% before the jobs numbers were released. We're still expecting the first cut in March. But be that as it may, as a speculative play between now and then, at 23% we'd definitely take the over.

## Bottom line

A blockbuster with 353,000 net new payrolls on top of large upward revisions. The annual benchmark process has upgraded payroll employment by 115,000 at December. Monthly change-figures were

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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]

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