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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 3, 2024

Donald Luskin

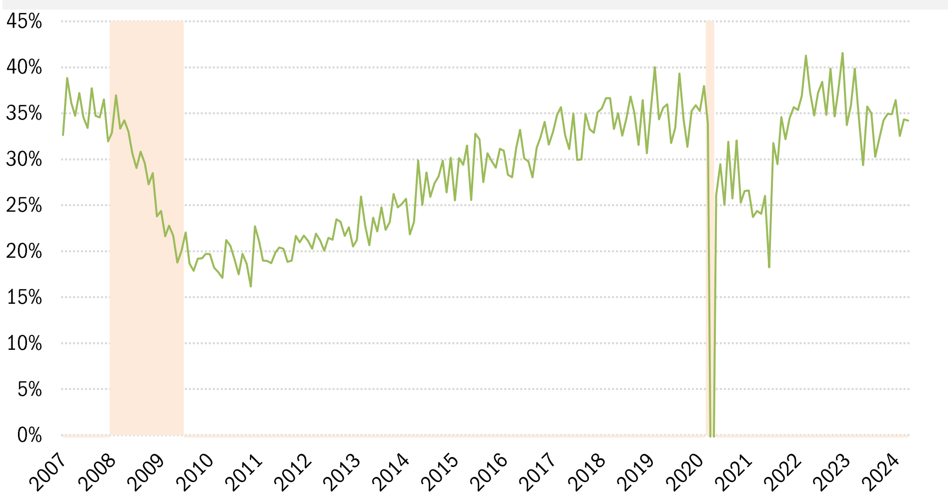
The labor force expands, and wage growth cools. Good report, and Fed-friendly.

Today's April 2024 Employment Situation Report with 175,000 net payrolls was a miss versus consensus expectations for 240,000. But it was very much in line with the estimate of our model based on an array of other contemporaneous labor market indicators (see "Data Insights: Jobs" May 3, 2024). There is little distortion from the 12,000 upward revision for March and the 34,000 downward revision for February.

The unemployment rate rose to 3.86% from 3.82%. change, based on the Current Population Survey – the "household survey" – showing 25,000 more employed and 63,000 more unemployed, with the labor force expanding by 87,000 (so notionally all the new unemployed were new entrants to the work force, and it's good to see the work force growing). The absorption capacity for such new entrants remains historically strong, with the "outflow rate from unemployment" – that is, the probability of an unemployed person finding a job in a given single month – is 34.2%, consistent with robust economic growth (please see the chart below, and again "Data Insights: Jobs" May 3, 2024).

Surely the spur for the big risk-on reaction in markets this morning was the Fed-friendly 0.20% monthly growth in average hourly earnings, down from

Monthly job-finding probability (the outflow rate from unemployment)



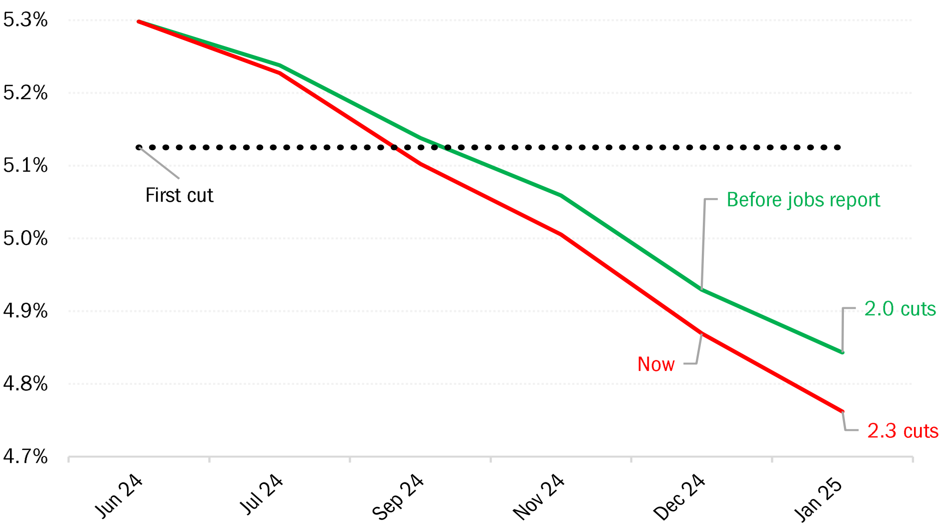
Source: BLS, per Shimer 2005, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: 175,000 payrolls was a miss versus consensus, but completely consistent with other labor market data and indicative of robust growth. The labor force expanded, which nudged the unemployment rate up slightly. The monthly job-finding probability remains very strong. Average hourly earnings growth decelerated versus last month's hot number, and the Q1-2024 Employment Cost Index. This caused post-FOMC optimism about rate cuts to continue, with 2.3 cuts by the January FOMC expected in the futures market now, with the first cut almost certain to come in September.

[Strategy dashboard]

Futures-implied funds rate, by FOMC meeting, before and after today's jobs report



Source: Bloomberg, TrendMacro calculations

0.35% last month. After [this week's hot Employment Compensation Index data for Q1-2024](#) sparked just the opposite reaction, this was a relief considering the extent to which the Fed still clings to the mistaken theory that wage growth causes inflation. The futures-implied funds rate now shows 2.3 cuts by the January 2025 FOMC, with the probability of the first cut coming in September at 92% (a post-report improvement of 0.3 cuts, and 4% of probability – please see the chart above).

Bottom line

175,000 payrolls was a miss versus consensus, but completely consistent with other labor market data and indicative of robust growth. The labor force expanded, which nudged the unemployment rate up slightly. The monthly job-finding probability remains very strong. Average hourly earnings growth decelerated versus last month's hot number, and the Q1-2024 Employment Cost Index. This caused post-FOMC optimism about rate cuts to continue, with 2.3 cuts by the January FOMC expected in the futures market now, with the first cut almost certain to come in September.

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