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

TRENDMACRO LIVE!

On the May Jobs Report

Friday, June 7, 2024

Donald Luskin

Another big beat thanks to immigration – but a mixed bag that won't move the Fed.

With ongoing chatter all week about "labor market weakness," we said don't worry about a tepid jobs report this morning (see "Video: What you're not hearing about 'labor market weakness' ahead of tomorrow's jobs report" June 6, 2024). Indeed, today's May 2024 Employment Situation Report was another big beat, with 272,000 net payrolls, against consensus expectations for 180,000. There were only the most trivial revisions to the prior two months. *Over the last 22 months, payrolls have beaten the consensus on average by about 65,000. We continue to think the reason is the difficulty for the consensus to get its arms around the growth effects of massive immigration* (see "Video: What you're not hearing about the effects of immigration on the post-pandemic boom" April 9, 2024).

- But… and there's always a but… *employment fell by 408,000 according to the Current Population Survey – the "household survey."* Unemployment rose by 157,000 as the labor force contracted by 250,000. This caused the unemployment rate to rise 10 bp to 3.96%, which is being reported as 4%.

Generative AI token: "The only thing supporting jobs growth is lawless chaotic immigration from the southern border"

Source: DreamStudio running SDXL v1.0

Update to strategic view

US MACRO, FEDERAL RESERVE: The "labor market weakness" Wall Street has been harping on all week failed to materialize, just as we expected. 272,000 payrolls was another big beat versus the consensus, as the effects of massive immigration on job creation continues to be underappreciated. The "household survey" contradicted the "payroll survey," showing net job losses. More than all those losses were native-born, with foreign-born employment rising sharply. Our model based on many labor indicators confirms the payroll survey. This is a mixed bag, and it will likely make no difference to the Fed at next week's FOMC. Futures took out half a rate cut at the report, but continue to expect the first cut in December. It doesn't matter much at this point, with the Fed self-evidently much closer to a neutral policy posture than it claims.

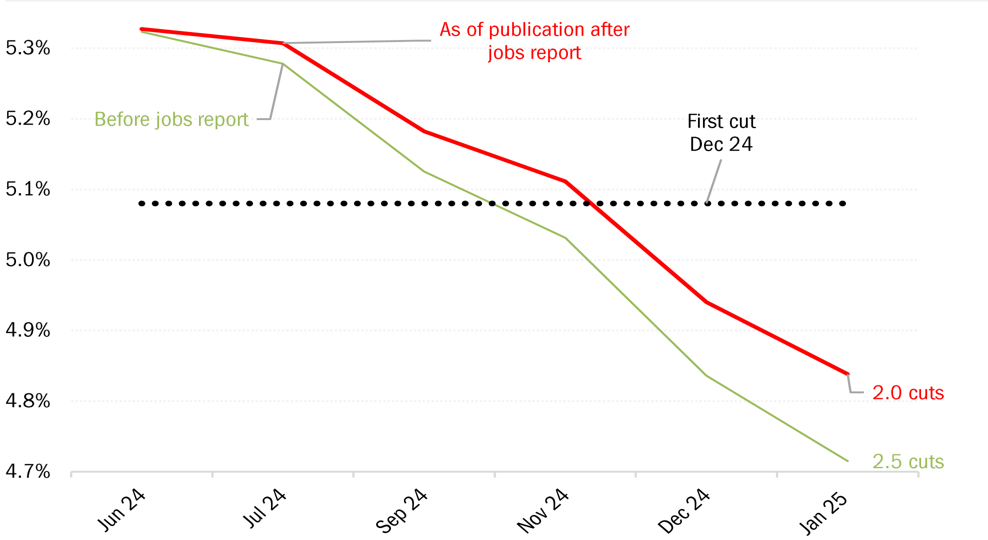
[Strategy dashboard]

- Which version of reality to believe? Our model that looks at a panoply of contemporaneous labor market indicators called for 157,000 net jobs, directionally confirming the rosier view in the Current Employment Statistics – the "establishment survey," or the "payroll survey" (see "Data Insights: Jobs" June 7, 2024).
- Surely contributing to the discrepancy between the surveys is the likely undercounting of new immigrants, especially illegal ones, in the household survey. That said, by its seasonally unadjusted numbers, foreign-born unemployment rose 414,000. So more than the entire 249,000 fall in unadjusted employment is due to 663,000 more unemployed native-born. *Our chaotic border policy is likely contributing, on net, to jobs and growth – but among other problems, it injects a great deal of chaos into the statistics*.

What is the Fed to make of this mixed bag?

- It's mixed, and generally more of the same, so the Fed probably won't be moved by it one way or the other. We're not sorry that the "labor market weakness" Wall Street has been harping on all week didn't materialize, because we don't think it helps to have the Fed cut rates if economic distress is the reason. We'd rather just see a strong economy. *This is all the more true now that, after more than two years of the Fed's tightening cycle, arguably the most rapid and brutal in history, there hasn't been so much as a soft landing. In other words, the Fed doesn't especially matter at this point. The present policy posture is likely a lot closer to neutral than the Fed keeps saying it is* (see "Video: What you're not hearing about why it doesn't matter when the Fed cuts rates" February 26, 2024).
- The futures curve took away half a rate cut when the jobs report hit the tape. It's saying December now for the first cut – but it was saying that before the jobs report (please see the chart below).

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



Source: Bloomberg, TrendMacro calculations

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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]

Bottom line

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