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

TRENDMACRO LIVE!

On the August Jobs Report

Friday, September 6, 2024

Donald Luskin

A big beat versus the recessionary whisper number. This locks in only a 25 bp rate cut.

With 142,000 net payrolls, today's August 2024 Employment Situation Report missed the consensus which had been expecting 165,000. But with recession fears continuing to stalk the land, we almost feel like *any positive number would have effectively been a beat*. To be sure, August's gains were made easier by downward revisions of 25,000 for July and 61,000 in June – which arguably lowered the bar substantially.

- This was a strong report in many respects.
- The unemployment rate ticked down slightly, with the labor force growing to a new all-time high, with more than all new entrants instantly employed.
- Using full decimal precision (not the rounded numbers most people seem to use), the faddish "Sahm Rule" recession indicator remains untriggered (see "On the July Jobs Report" August 2, 2024). *Please see our correction concerning this on the last page.*
- Hours worked made a new all-time high.

With the September FOMC coming in less than two weeks, this is the last jobs report the Fed is going to see before it decides whether to cut the funds rate by 25 bp – effectively, a minimum given Powell's recent pronouncements (see "On Powell at Jackson Hole" August 23, 2024) – or 50 bp.

- Coming into this morning's jobs print, markets were assigning a 38% probability to a 50 bp cut. Since the jobs print, the probability rose to as much as 58%, and as of this writing, they're down to 42%.
- The Fed is going to get to see one more inflation report before the September FOMC, and that will be the final arbiter. We're expecting a print below the Fed's target, but not outright deflation.
- Remember, as a normative benchmark, we think the dial-tone for jobs in a steady-state expansion is about 90,000, given trend growth in the adult population. So while *payroll growth has slowed versus last year's torrid pace, it is still traveling down the highway somewhat above the speed limit. With inflation about at target, why spook the horses with an outsized rate cut?*
- *Don't be disappointed that this payroll print wasn't worse, and that you are only going to get 25 bp. That's a better world than one*

Update to strategic view

US MACRO, FEDERAL RESERVE: 142,000 is officially a miss, but probably a substantial beat over the whisper number, with markets infected by a new round of recession fears. The prior two months were revised lower. The labor force and hours worked grew to new all-time highs. The unemployment rate ticked slightly lower, and at full decimal precision the Sahm Rule remains untriggered. This is the last jobs report before the September FOMC, but there will be one more CPI report. Inflation will come in below target, and this jobs report doesn't look recessionary, so we expect the FOMC will cut rates by 25 bp, not 50 bp. The large downward payroll revision resulting from the BLS's preliminary annual benchmarking exercise still leaves more than 2 million new payrolls during the 12 months subject to revision. Payrolls have been the odd man out in labor data, with our model based on all the other data sets showing jobs growth all along at about the level payrolls will show when the benchmarking is finalized.

[Strategy dashboard]

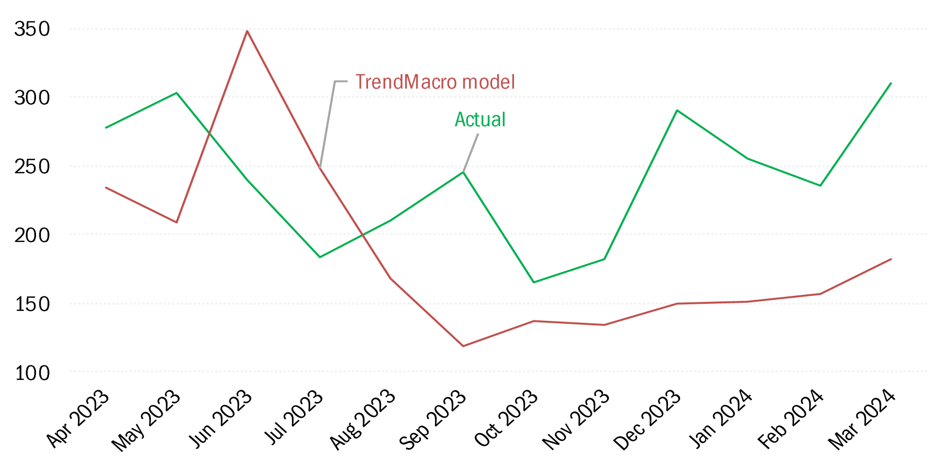
teetering on recession where the Fed has to panic and cut by 50 bp.

Adding to the recession apprehension coming into today's jobs report was the Bureau of Labor Statistics' announcement two weeks ago of their annual preliminary benchmark revision, reducing the number of payrolls reported for the year ending March by 818,000 (that's an estimate – the actual benchmark revision and restatement of all the payroll statistics won't happen until the January 2025 data is released).

The narrative around this very large downward revision – as a share of total payrolls, five times the historical norm – has been that *the economy has been far weaker than we knew all along*. Of course that's just what the forecasters who have been wrong in calling for a recession for more than two and a half years would like us to believe.

- First, get a grip people. It's not good news on the face of it that there are fewer payrolls than we thought. But over the twelve months subject to the 818,000 downward revision, there were originally thought to be 2.90 million net payrolls gains, *so the revision still leaves 2.08 million*. Not exactly a recession.
- Second, that means *productivity is higher than we thought*. The same all-time high output of real goods and services is being produced with less labor input.
- Third, *the revision is in fact a normalization of payroll data to bring it into line with virtually every other labor market data set*.
- With every month's "Data Insights: Jobs" we publish the results of a simple regression model bringing together all the available labor market data other than that included in the monthly BLS report – ADP payrolls, Challenger layoffs, state unemployment claims, ISM employment indices and NFIB hiring plans. This morning the model was saying there were 127,000 jobs created in August (see "Data Insights: Jobs" September 6, 2024).

Monthly change in net payrolls (thousands)



Source: BLS, TrendMacro calculations

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

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]

- Even though payrolls at 142,000 missed the Wall Street consensus, they beat our model – which in fact they have also done almost every month for the past two years. The chart on the previous page shows reported payrolls versus our model for the twelve months up to March 2024, the period to which the 818,000 negative revision will apply. Note that the model only beat payrolls in two months out of twelve (June and July of 2023). Across the 12 months, while reported payrolls, again, were 2.90 million, the model estimated 2.24 million – and that explains 81% of the downward revision of 818,000 to 2.08 million.
- All along, payrolls have been the odd man out in the data. This revision doesn't tell us anything new about the economy. It tells us that payroll data isn't perfect. Shocker.

Bottom line

142,000 is officially a miss, but probably a substantial beat over the whisper number, with markets infected by a new round of recession fears. The prior two months were revised lower. The labor force and hours worked grew to new all-time highs. The unemployment rate ticked slightly lower, and at full decimal precision the Sahm Rule remains untriggered. This is the last jobs report before the September FOMC, but there will be one more CPI report. Inflation will come in below target, and this jobs report doesn't look recessionary, so we expect the FOMC will cut rates by 25 bp, not 50 bp. The large downward payroll revision resulting from the BLS's preliminary annual benchmarking exercise still leaves more than 2 million new payrolls during the 12 months subject to revision. Payrolls have been the odd man out in labor data, with our model based on all the other data sets showing jobs growth all along at about the level payrolls will show when the benchmarking is finalized.

CORRECTION: *As of 12:44 pm September 6, 2024* A client has pointed out that even at full decimal precision the Sahm Rule has indeed been triggered with today's August data. He is right, and we were wrong. The rule compares the latest 3-month average of the unemployment rate to its minimum over the *previous* 12 months, and is triggered when the difference is at least 50 bp. We have always included the most recent month's average in the 12 months, but we can infer from Claudia Sahm's own calculations that "previous" means "*not* including the present month." Our way compares the most recent average of 4.22% to September 2023's 3.70%, for a difference of 49 bp. Sahm's way compares to August 2023's 3.63%, for a difference of 54 bp – which is above the trigger level for the first time (last month's difference was only 49 bp). We apologize for our error. For what it's worth, we note that the historical track record of the Sahm Rule for predicting recession-onset is better our way than the right way!