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TRENDMACRO LIVE!

On the September Jobs Report

Friday, October 4, 2024

Donald Luskin

Bad news: now only 50 bp of rate cuts by year-end. The really good news: no recession.

First, eight words underscoring what we told the many clients who reached out to us this week asking us whether the dock strike was going to finally cause a long-awaited recession, or lead to inflation: *what dock strike? This is an election year.*

Now… about that amazing jobs report. As long as we've started here by tooting our own horn a little bit, let us begin by saying that *this confirms our call that – whatever the Fed may privately fear – that 50 bp rate cut last month wasn't because they know something scary that the rest of us don't know about weakness in the jobs market* (see "On the September FOMC" September 18, 2024).

Today's September 2024 Employment Situation Report was a blockbuster by any standard.

- *At 254,000 net payrolls, it's a big beat versus an already robust consensus for 150,000*. It's all the more impressive for the upward revisions of 17,000 for August and 55,000 for July. *That July revision is especially noteworthy, because last month it had been revised sharply lower to a mere 89,000, barely the dial-tone growth rate for this full-employment economy* (see "On the August Jobs Report" September 6, 2024).
- It's also a beat versus our model based on a panoply of other labor market indicators, which was calling for 142,000 (see "Data Insights: Jobs" October 4, 2024). To some extent that makes us slightly skeptical about the payroll number, and we expect it to be revised somewhat lower.
- That said, employment increased by 430,000 according to the Current Population Survey – the "household survey" – which has been lagging payrolls for over a year. The brings "household" employment to a new all-time high at 161.86 million, exceeding the prior record at 161.62 million set last November. The recession consensus's citing of that as drop-dead evidence that the jobs market is actually contracting has now been put to rest.
- "Household" unemployment fell by 281,000. This is a remarkable combination, considering that the labor force expanded by 150,000 to a new all-time high at 168.70 million. That means far more than all the new entrants to the labor force got employed. *That*

Update to strategic view

US MACRO, FEDERAL RESERVE: A big beat with 254,000 net payrolls on the shoulders of large upward revisions – including to July, which last month had been sharply revised lower. It's an even bigger beat versus the whisper number informed by the fear that the Fed's 50 bp rate cut was because the "know something the rest of us don't know." The unemployment rate fell despite a large increase in the labor force to new all-time highs. This caused the Sahm Rule to untrigger itself. Employment in the "household survey" moved to new all-time highs, having been stalled out for three quarters. Market-implied expectations for Fed rate cuts came in sharply, moving close to where the Fed's "dot plot" has been all along. It's a positive development to trade away Fed rate cut hopes for assurance that the economy is not falling into recession.

[Strategy dashboard]

absorption of new entrants caused the unemployment rate to fall to 4.05% from 4.22% – and caused the faddish "Sahm Rule" recession indicator to untrigger itself. We told you not to worry about that, and indeed (to her credit) so did its author Claudia Sahm (see "Two Faddish Indicators and Their Flaws" September 9, 2024).
- Average hourly earnings rose 37 bp, a nice robust number reflecting a booming economy, not an over-tight labor market. The Fed, which seems to still worry that too much prosperity might cause inflation, will be relieved to see that this growth is 9 bp cooler than last month's.
- *In the aftermath of this morning's jobs report, market-based expectations for Fed rate cuts tightened up considerably.* The fed funds futures, as of this writing, are calling for 2.21 rate cuts by year-end. Prior to the jobs report they were calling for 2.67 cuts. A couple weeks ago it was more than 3 cuts. *All along the Fed has been telling markets it will be just two – that's what the "dot plot" put up at the September FOMC says* (again, see "On the September FOMC").
- You can worry that it's a bad thing for markets to expect fewer rate cuts from the Fed, believing them to be stimulative. But we say the real worry is recession. It is signs of recession that would cause the Fed to deliver more than the two 25 bp rate cuts – one in November and one in December – clearly set out in the "dot plot."
- It's not bad news to have more evidence that there is still no recession brewing.

Bottom line

A big beat with 254,000 net payrolls on the shoulders of large upward revisions – including to July, which last month had been sharply revised lower. It's an even bigger beat versus the whisper number informed by the fear that the Fed's 50 bp rate cut was because the "know something the rest of us don't know." The unemployment rate fell despite a large increase in the labor force to new all-time highs. This caused the Sahm Rule to untrigger itself. Employment in the "household survey" moved to new all-time highs, having been stalled out for three quarters. Market-implied expectations for Fed rate cuts came in sharply, moving close to where the Fed's "dot plot" has been all along. It's a positive development to trade away Fed rate cut hopes for assurance that the economy is not falling into recession.