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TRENDMACRO LIVE!

On the October Jobs Report: Blockbuster in Disguise?

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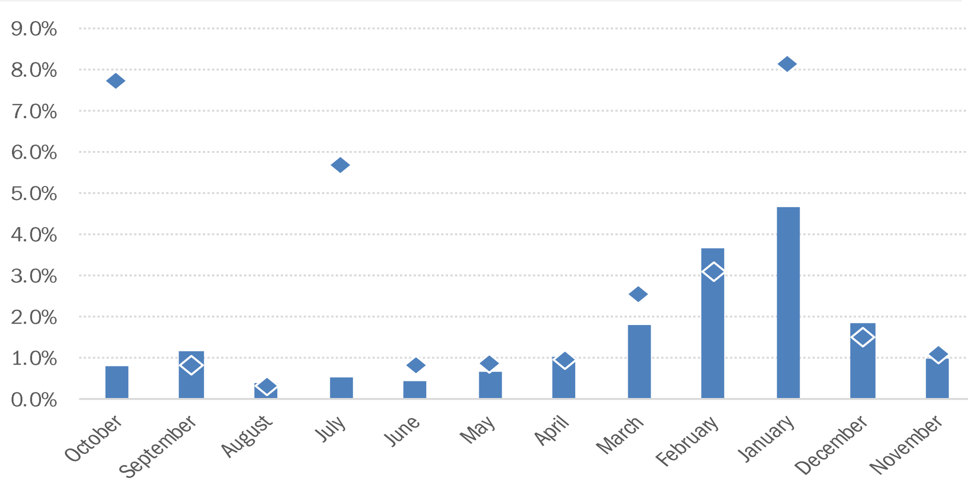
Donald Luskin

Storm-related unemployment was massive. And the Sahm Rule reversed itself -- again.

Today's October 2024 Employment Situation Report with only 12,000 net payrolls looks like a disaster, but we have to make best efforts to separate out the effects of two major storms and some strike activity. When we do, *we find this seemingly dismal report could be a blockbuster in disguise*. *That said, there were downward revisions* of 31,000 payrolls for September (leaving that blockbuster at 254,000 payrolls still a blockbuster at 223,000) and 81,000 for August (leaving that month definitely not a blockbuster at 78,000).

- The Bureau of Labor Statistics noted storm impacts, but made no adjustments (outside the normal seasonal adjustments, which implicitly account for storms). They reported that the “establishment survey” – or “payroll survey” – had lower than normal response rates – implying, perhaps, some storm impact but not calling it out numerically, because that survey cannot measure unemployment. On the other hand, the “household survey” had normal response rates – and that is the survey in which respondents are able to report unemployment, including unemployment due to weather.
- That survey reports 512,000 unemployed due to weather, compared to 51,000 in the typical October – so 461,000 excess unemployed this month (please see the chart below).

Share of unemployed due to weather ■ Average each month ◆ Same month this year



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: 12,000 net payrolls seems like a disaster, but it surely reflects the impact of Hurricanes Milton and Helene. BLS made no adjustments. The payroll survey had lower than unusual response, but it is not designed to report unemployment, including unemployment due to storms. The household survey had normal response rates, and reports 461,000 more unemployed due to weather than in the average October. So this seemingly horrible jobs report could be a blockbuster in disguise. It is impossible to precisely map results from the household survey to payrolls, but directionally, they confirm that storms are the cause of the low payroll gains. Prior months were revised down, with September still a blockbuster. The Sahm Rule reversed itself again, for the only time in history other than 1959, the one time the Rule’s recession call was wrong. Fed expectations are little changed, with 25 bp cuts at the November and December FOMC on track.

[Strategy dashboard]

- That doesn't automatically mean you can add 461,000 jobs to the 12,000 reported in the payroll survey. The household survey from which the weather-related joblessness is derived always varies significantly from the payroll survey.
- For October, the household survey reports a loss of 368,000 jobs, not a gain of 12,000. That divergence is not unusual at all. *We can confidently add 461,000 jobs to the 368,000 lost in the household survey and get a net gain of 93,000*. Who knows how to adjust the payroll survey? Surely, though, *the payroll survey deserves an upward adjustment, and probably a large one.*
- As of this writing Mr. Market would seem to agree. From the moment the jobs report was released, equities have traded higher. Expectations for Fed rate cuts have expanded slightly, suggesting the expectation that these labor statistics will keep the Fed on track for the two 25 bp rate cuts promised this year with the September "dot plots" (see "On the September FOMC" September 18, 2024) – but nothing more than that, which would have suggested that some kind of employment emergency was happening.

The unemployment rate appears to be unchanged at a reported 4.1%, but unrounded it rose from to 4.15% from 4.06%. The rise in unemployment of 150,000 was, on a ratio basis, not sufficiently offset by a contraction of 220,000 in the labor force (both likely storm-related).

- *This marks the second month in a row in which the Sahm Rule's recession call* – registered in August (see "On the August Jobs Report" September 6, 2024) – *has reversed itself* (see "Two Faddish Indicators and Their Flaws" September 9, 2024). And with the October data this morning, it reversed itself even more definitively than last month.
- *This is only the second time in history that the Sahm Rule has reversed a recession call the month after it first made the call* – in all other cases the call stayed in place for many months, until the predicted recession arrived and then bottomed out. *The other time was 1959 – which is the only time the Sahm Rule has ever given a "false positive."*

We note that the net payroll gains of 12,000 are the joint product of 40,000 gained in government employment and 28,000 lost in private employment. That too is consistent with storm-related job losses, which would only affect the private sector.

- In the household survey, though, government employment fell by 103,000 – about a quarter of the 368,000 drop in overall employment. This shows, first, the typical divergence between the payroll and household surveys, and second, the absurdity of last month's preposterous report of 785,000 new government jobs.
- Or maybe it just explains why the victims of Helene and Milton aren't getting the government assistance they need and deserve.

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Bottom line

12,000 net payrolls seems like a disaster, but it surely reflects the impact of Hurricanes Milton and Helene. BLS made no adjustments. The payroll survey had lower than unusual response, but it is not designed to report unemployment, including unemployment due to storms. The household survey had normal response rates, and reports 461,000 more unemployed due to weather than in the average October. So this seemingly horrible jobs report could be a blockbuster in disguise. It is impossible to precisely map results from the household survey to payrolls, but directionally, they confirm that storms are the cause of the low payroll gains. Prior months were revised down, with September still a blockbuster. The Sahm Rule reversed itself again, for the only time in history other than 1959, the one time the Rule's recession call was wrong. Fed expectations are little changed, with 25 bp cuts at the November and December FOMC on track.