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TRENDMACRO LIVE!

On the November Jobs Report

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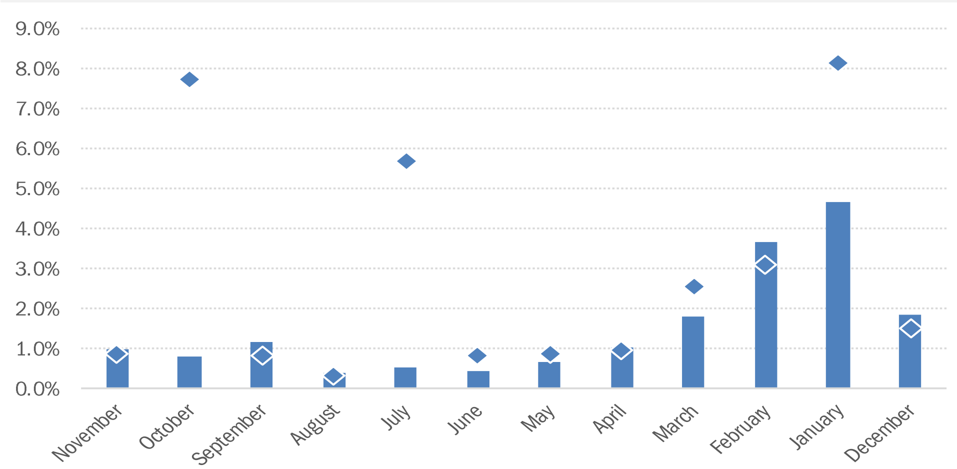
Donald Luskin

Workers displaced by storms all came back. Why wasn't this report stronger?

Today's November 2024 Employment Situation Report is just plain weird.

- Net payrolls grew by 227,000 versus a consensus for 220,000. It's all the stronger for the upward revisions of 24,000 for October and 32,000 for September.
- *But we wanted more.* Last month's October 2024 Employment Situation Report with only 12,000 net payrolls (revised up to 36,000) was artificially weak because of Hurricanes Milton and Helene (see "On the October Jobs Report: Blockbuster in Disguise?" November 1, 2024). According to the "household survey" (which very much does not map perfectly to the "payroll survey"), 461,000 persons were out of work due to the storms. *Now they are all back to work (please see the chart below). So why didn't we get a bigger payroll number?*
- *Indeed, employment in the "household survey" contracted by 355,000, even as payrolls grew*. We're used to contradictions in the surveys, but this is a big one and a weird one.
- *Also according to the "household survey," unemployment rose by 161,000 as the labor force contracted by 193,000, driving the unemployment rate higher by 10 bp, from 4.15% to 4.25%.. None of this is consistent with a back-to-work surge after the storms.*



Source: BLS, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: A beat in net payrolls at 227,000, on top of upward revisions of 56,000 for the prior two months. But the "household survey" contradicts this good news sharply, with a contraction of 355,000. That's quite a mystery, considering that unemployment due to weather is now entirely at ordinary levels, implying that the 461,000 persons out of work last month due to hurricanes have all come back. A possible partial expectation is the contraction in immigrant employment in the face of a too-little-too-late attempt by the Biden administration to tighten the border and, unsuccessfully, defuse an election issue. Market expectations for no pause in Fed rate cuts came back to life after the report, having been unrealistically positioned for a pause in either December or January. Especially when CPI come is soft next week, there will be no pauses.

[Strategy dashboard]

So what went wrong?

- Near as we can tell, it's all about immigration. We've been saying all year that the flood of legal and illegal immigration across the southern border has triggered a jobs boom (see, first among many, "Video: What you're not hearing about the effects of immigration on the post-pandemic boom" April 9, 2024). *In the run-up to the election, the Biden administration has taken various steps to slow the flow-rate of immigration, identifying it as a key negative for Kamala Harris's campaign – but it was too little too late, and indeed, it proved decisive in the election.*
- The immigration numbers in the "household survey" are not seasonally adjusted, which adds to the difficulty of scaling and scoping this as a factor. But the growth in adult immigrants has been flat now for four months, and in November foreign-born employment fell by 267,000.
- To be sure, that's not sufficient to turn around the overall contraction in employment in the "household survey" of 355,000. But directionally, it's surely a factor.

So what about the Fed?

- Coming into today's jobs report, markets were not even priced fully for a single 25 bp rate cut across both the December and January meetings. After the jobs report, they implying an 88% probability of a cut in December, and an 18% probability of a second cut in February.
- This move in Fed expectations toward the dovish probably would have happened no matter what this morning's jobs report looked like. The idea that the Fed would pause in either December or January, or both, was ridiculous from the get-go and needed to be corrected. At the press conference after the November FOMC, when asked about the possibility of a pause, Fed Chair Jay Powell said, "…it may turn out to be appropriate to slow the pace at which we're dialing back restriction… as we approach levels that are plausibly neutral or close to neutral" (see "On the November FOMC: What, Me Political?" November 7, 2024). In the September FOMC's Summary of Economic Projections, the very highest estimate of the neutral rate was 3-3/4%, which is three-and-a-half 25 bp rate cuts below the current rate. *There was never going to be a pause – and surely there was nothing in today's jobs report that could remotely change that reality.*
- Perhaps the markets think the Fed is going to focus on the slowing of payroll growth that could plausibly occur when Donald J. Trump takes offer and tries to close the border much more than Joseph R. Biden already did. Or, we could keep it simple – maybe markets just see the little rise in the unemployment rate and think that's enough to give the Fed no reason to not keep cutting.
- *What's more, CPI will be reported next Wednesday, one week before the FOMC meets. We are expecting a very cool number. The Fed will most definitely cut in December (and January, too).*

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Bottom line

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