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

TRENDMACRO LIVE!

On the January Jobs Report (and Tariffs)

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Donald Luskin

Revisions, benchmarkings, adjustments (and weather). This miss is a strong jobs report.

FIRST, A QUICK WORD ON TARIFFS We told clients Sunday night that we should still wait and see on tariffs, when it seemed that their imposition on Canada and Mexico was certain and imminent (see "They Called His Bluff on Tariffs" February 2, 2025). *We hope you waited. Markets have more than recovered from the tariffs panic. But there is more to see*. The new executive order from the Trump White House calling for a US "sovereign wealth fund" potentially opens up a whole new dimension in the possibility that this administration will pursue a broad restructuring of the global trading system (see "Predictions for 2025: Tariffs" January 3, 2025). *Again, wait and see*. Chance favors the prepared mind.

NOW, THAT INCREDIBLY WHACKY JOBS REPORT Today's January 2025 Employment Situation Report with 143,000 net new payrolls and the unemployment rate at 4% looks so calm and simple, like a swan elegantly gliding on a pond. But just beneath the surface its feet are paddling furiously.

- The 143,000 payroll gain was a miss versus the consensus for 175,000. But *the prior two months were revised higher by 51,000 and 49,000 respectively*. So was it really a miss?
- An unusually large number of the unemployed reportedly was due to weather. We don't think the Los Angeles fire made any difference (since they began, new jobless claims in California have risen by only about 10,000 – see "Data Insights: High Frequency Post-Virus Recovery Monitor" July 6, 2025). *But it was an unusually cold January. This could have shaved something like 250,000 jobs off January's totals*.
- The annual benchmarking process, as expected, reduced the total number of payrolls versus what had been previously reported. But *the benchmarking month of March 2024 was revised lower by only 589,000 – far less than the 818,000 the Bureau of Labor Statistics had previously estimated*.
- And in the "household survey," the annual "population control" adjustment added 2.871 million to the civilian population, and 2.106 million to the labor force. The BLS does not backwardly revise the data, so the whole adjustment gets impounded in January's numbers. Therefore, the reported gain of 2.234 million new jobs in January should be ignored (properly adjusted, it is

Update to strategic view

US MACRO, FEDERAL RESERVE: The tariff panic has passed, and our call over last weekend to wait and see was correct. There will be more to see as the year unfolds, with the new call for a US "sovereign wealth fund" potentially opening a new dimension in Trump's potential restructuring of global trade. January payrolls at 143,000 missed the consensus, but the prior two months were revised higher by 100,000. The annual benchmarking process revised the March 2024 reference month lower by 589,000, but previous BLS guidance had been 818,000, so this is an upside surprise. The "household survey" has upwardly revised its estimate of the population by almost 3 million, an order of magnitude greater than any past revision, potentially fueled by immigration estimates. Adjusted for this, employment in the "household survey" grew by 400,000. Wage growth was strong. Overall, a Fed-unfriendly report. But policy is not especially tight, so market expectations now for only one rate cut this year are perfectly appropriate.

[Strategy dashboard]

- 400,000, a normal but still very robust number). The reported jump in the labor force to 2.197 million should be adjusted to 265,000.
- *This is by an order of magnitude the biggest adjustment we have ever seen. It would appear that about half of it is an upgrade to estimates of the number of new immigrants.*
- Our tables and charts in this morning's "Data Insights: Jobs" do not adjust for this unusually large distortion. We will build adjustments into next month's report.
- Average hourly earnings grew by 0.48% on the month, and December was revised higher by 0.22%. *This would appear to be very Fed-unfriendly*. After the report, the money market curve pushed out full expectations for the next rate cut from July to September – so there would be only one cut this calendar year.
- But don't worry about rate hikes (some clients are worrying…). Chair Jerome Powell is at pains nowadays to remind us he believes "The labor market is not a source of significant inflationary pressures."
- But wage growth aside, overall, this strong jobs report – looking through all its many distortions – confirms the view that the economic growth remains entirely solid, and confirms that, therefore, Fed policy must not be especially restrictive. So in this context "Fed unfriendly" just means rate-cut unfriendly. And if growth is solid, why would be want a rate cut? We continue to believe that the Fed is already at or very near the neutral rate. Cuts from here wouldn't necessarily be stimulative. Just distortive.

Bottom line

The tariff panic has passed, and our call over last weekend to wait and see was correct. There will be more to see as the year unfolds, with the new call for a US "sovereign wealth fund" potentially opening a new dimension in Trump's potential restructuring of global trade. January payrolls at 143,000 missed the consensus, but the prior two months were revised higher by 100,000. The annual benchmarking process revised the March 2024 reference month lower by 589,000, but previous BLS guidance had been 818,000, so this is an upside surprise. The "household survey" has upwardly revised its estimate of the population by almost 3 million, an order of magnitude greater than any past revision, potentially fueled by immigration estimates. Adjusted for this, employment in the "household survey" grew by 400,000. Wage growth was strong. Overall, a Fed-unfriendly report. But policy is not especially tight, so market expectations now for only one rate cut this year are perfectly appropriate.

Contact TrendMacro

On the web at
trendmacro.com

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

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