

TRENDMACRO LIVE!

## On the February Jobs Report and the DOGE Effect

Friday, March 7, 2025

Donald Luskin

We're starting to see a DOGE effect. The test is whether these people can find other work.

[Today's February 2025 Employment Situation Report](#) with 151,000 net new payrolls came in just under the Wall Street consensus for 160,000 – but our sense is that the “whisper number” was far lower, maybe even negative, so in terms of sentiment we see this as a beat. Based on the decline in 365 days-ahead S&P 500 forward earnings from the January peak, we are more on alert for recession than we have been in five years (see [“The Other Trump Effect: Uncertainty”](#) February 25, 2025) – but based on history, the business cycle expansion isn't over until you get a negative payrolls print, and we didn't get one.

- Revisions to the prior two months were virtually nil.
- Our model based on contemporaneous labor market measures was calling for 132,000 payrolls (see [“Data Insights: Jobs”](#) March 7, 2025), so there's nothing out of line about 151,000.
- Rather, there is something very much out of line with the terrible data in the “household survey” – a drop of 588,000 employed and in increase of 203,000 unemployed, netting to a contraction in the labor force of 385,000. This is what led to the uptick in the unemployment rate to 4.14% from 4.01% last month.
- Seasonal adjustments were significant for both the “household survey” and the more closely watched [“payroll survey.”](#) Without the adjustments, raw payrolls rose 891,000 and employment by 197,000.
- For the “household survey” results, weather was a significant factor. We estimate about three quarters of the seasonally adjusted increase of 203,000 unemployed is explained by it.
- Change in employment by immigrants is provided only on a non-seasonally adjusted basis, and it fell by 87,000 and the adult immigrant population fell by 385,000 – while all the other non-adjusted data series rose. We could be seeing the leading edge of a factor that has worried us most all along about Trumponomics – the sealing off of the labor supply arriving across the southern border. This worries us more than tariffs. If somehow tariffs are successful in increasing demand for US-produced goods, who exactly is supposed to produce them if not immigrants, when the unemployment rate is already so low (see, earliest, [“Video: What you're not hearing about the effects of immigration on the post-pandemic boom”](#) April 9, 2024)?

### Update to strategic view

**US MACRO, FEDERAL RESERVE:** 151,000 payrolls is in line with the official consensus for 160,000 and a major beat versus what we believe was a far more pessimistic whisper number. Employment in the “household survey” fell sharply, and unemployment rose, driving up the unemployment rate slightly. This is at variance with an array of other contemporaneous labor market data, which support the “payroll survey” number. Immigrant employment and population fell. That data is not seasonally adjusted; other non-adjusted data rose sharply, so this is a worrisome early indicator of the effect of Trump border policy. There is some evidence of a DOGE effect, with federal government payrolls shrinking by 10,000 and Washington and Virginia leading the way in continuing jobless claims. It's too early to be sure and the data is noisy, but it does appear there is a DOGE effect. The important test will be to see if former federal workers can find new jobs. Wage growth was modest. If anything, this report should make the Fed more cautious.

**OK. HERE'S WHAT YOU WANT TO HEAR ABOUT. THE DOGE EFFECT.** *Federal government payrolls fell by 10,000 in February*, the first reporting-month since President Donald J. Trump took office and the Department of Government Efficiency began its work.

- Last month, federal government payrolls were reported as growing by 9,000. But that was revised today to only 5,000. So there's a lot of noise here.
- Federal government employment doesn't automatically rise every month. Indeed, this makes the third month out of the last two when it contracted.
- The payroll data is gathered in the second week of the month, so in fact there would have been about three weeks for DOGE to have any effect. 10,000 feels like a lot. We can expand that by several weeks by looking at the more high-frequency labor data series of weekly claims for unemployment insurance (see ["Data Insights: High Frequency Post-Virus Recovery Monitor"](#) March 6, 2025).
- Continuing claims since Trump was inaugurated grew most, on a percentage basis, in Washington DC and Virginia, pointing to job losses with the federal government. But they fell slightly in Maryland (please see the chart below and, again, ["Data Insights: Jobs"](#)).

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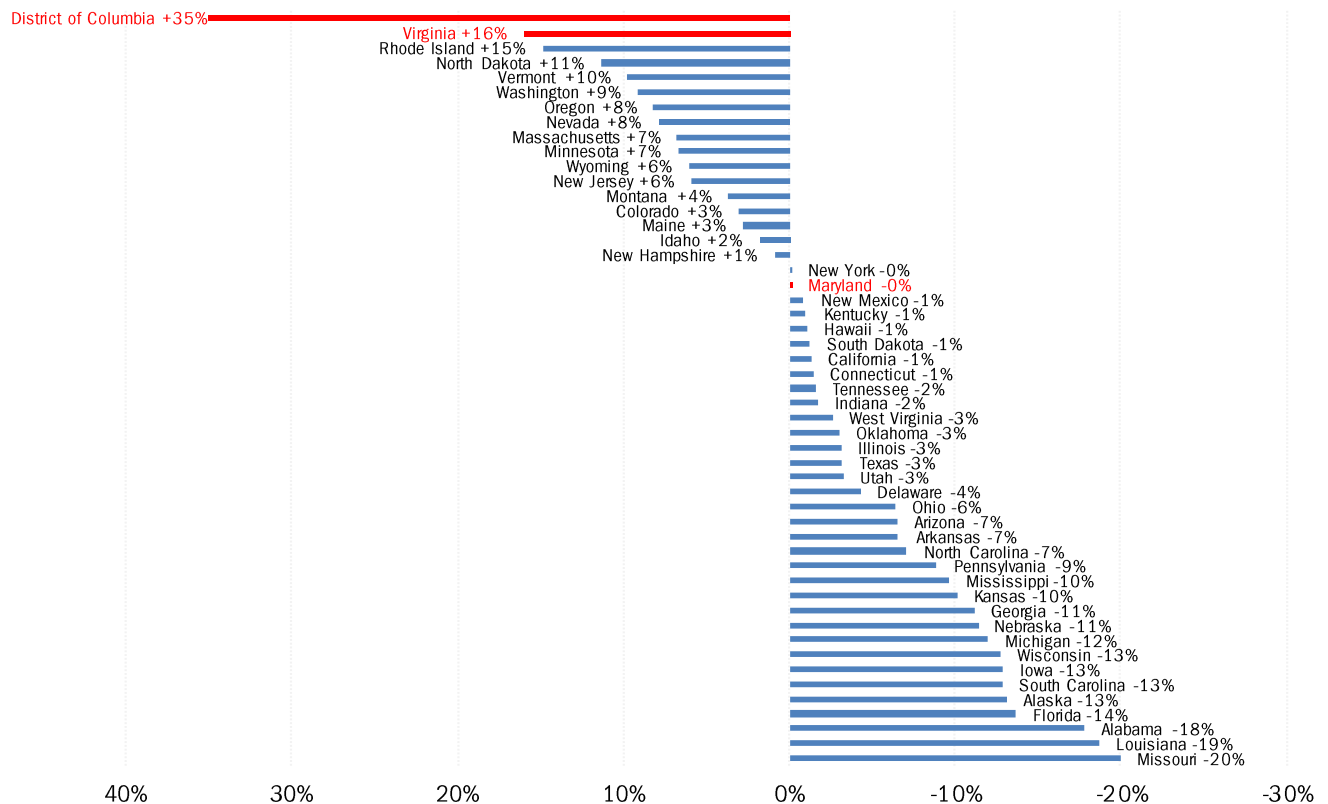
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Percentage change in continuing jobless claims since Trump inauguration



Source: Department of Labor, TrendMacro calculations

- The DC and Virginia data are compelling, but the Maryland data is contradictory. And why would Rhode Island come in at third place with substantially the same unemployment experience as Virginia? *We really can't be sure we are seeing a DOGE effect. We probably are, but we caution against over-interpreting here.*
- In our ongoing efforts at detection of an effect, we are intentionally measuring the change in continuing claims, rather than the running total of new claims. In macroeconomic terms, we are less interested in how many people are working for the federal government than we are in how many people are working at all. The best result from DOGE or any other effort to downsize the federal government would be to recycle employees into more productive work. Looking at continuing claims lets us see the net of how many people leave the federal government minus how many find other work.

**AND OF COURSE, THE FED.** Average hourly earnings grew by a modest 0.28%, and last month's hotter growth was revised a little lower. With that, and the intimations of a potential DOGE effect right in the Federal Reserve's back yard, we think if anything that this would slightly tilt the Fed toward worrying about growth in its balance of risk assessment.

- A couple weeks ago markets were expecting fewer than two rate cuts this year. Now, with a couple weeks of stock market correction under our belt, they're expecting three, with the first coming with certainty at the June FOMC. Today's jobs report didn't really change that. Our money is still on two cuts, but if the early signs of weakness we are seeing deepen at all (again, see ["The Other Trump Effect: Uncertainty"](#)), three is an easy call.

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## Bottom line

151,000 payrolls is in line with the official consensus for 160,000 and a major beat versus what we believe was a far more pessimistic whisper number. Employment in the "household survey" fell sharply, and unemployment rose, driving up the unemployment rate slightly. This is at variance with an array of other contemporaneous labor market data, which support the "payroll survey" number. Immigrant employment and population fell. That data is not seasonally adjusted; other non-adjusted data rose sharply, so this is a worrisome early indicator of the effect of Trump border policy. There is some evidence of a DOGE effect, with federal government payrolls shrinking by 10,000 and Washington and Virginia leading the way in continuing jobless claims. It's too early to be sure and the data is noisy, but it does appear there is a DOGE effect. The important test will be to see if former federal workers can find new jobs. Wage growth was modest. If anything, this report should make the Fed more cautious. ▶

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