

MACROCOSM

On the April Jobs Report, and the Boom Year of Living Joblessly

Friday, May 8, 2026

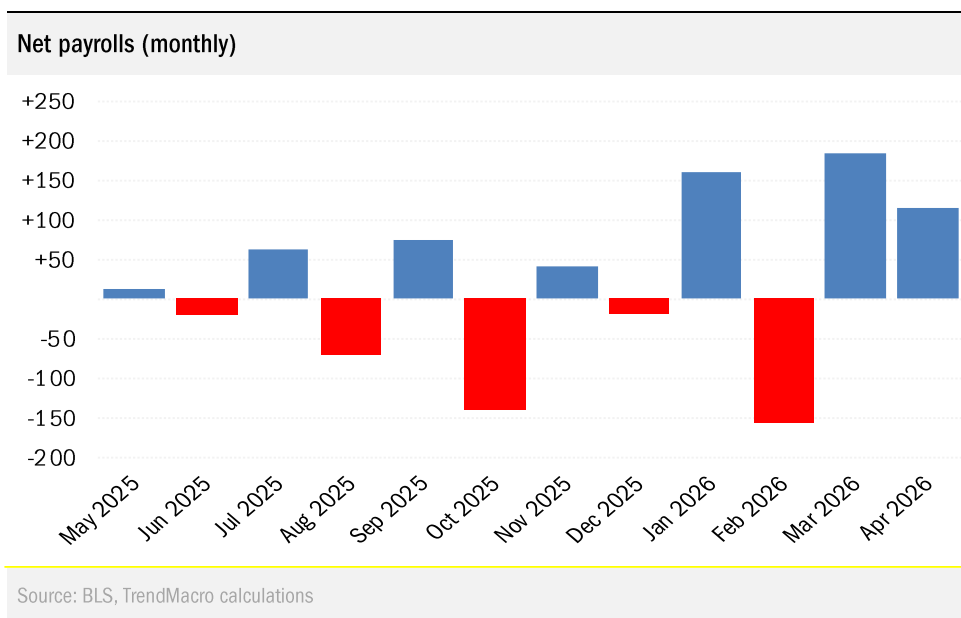
Donald Luskin

A recession requires a payroll contraction. But it takes no jobs growth to make a boom.

FIRST, AN UPDATE ON TARIFFS As we expected, our friends at the Liberty Justice Center won another landmark case against the tariffs imposed by President Donald J. Trump. Yesterday [the Court of International Trade ruled unlawful the tariffs promulgated under Section 122](#) of the Trade Act of 1974 (see [“Video: TrendMacro conversation with the Liberty Justice Center, the public interest law firm that beat the tariffs in the Supreme Court”](#) February 25, 2026, and [“Video: TrendMacro conversation with Phillip Magness on the new tariffs imposed under Section 122 of the Trade Act of 1974”](#) March 9, 2026). The court held that the law empowers the president to impose tariffs only specifically in response to a balance of payments emergency, not trade deficits. Pending appeal, the tariffs will continue to be collected. But it strikes another important pro-growth blow for lower taxes and economic liberty.

NOW, JOBS Today’s [April Employment Situation Report](#) with 115,000 net payrolls beat the consensus for 65,000. The beat is consistent with our model’s estimate of 146,000 (see [“Data Insights: Jobs”](#) May 7, 2026). February and March were revised slightly, down by 23,000 and up by 7,000 respectively. More than all April’s gains were in the private sector.

- *This breaks the 11-month pattern* (please see the chart below) of



Update to strategic view

US MACRO, US STOCKS, FEDERAL RESERVE, OIL: The Court of International Trade struck down Trump’s Section 122 tariffs, striking a pro-growth blow for lower taxes. 115,000 net payrolls beat the consensus for 65,000 and broke the 11-month streak of alternating monthly payroll gains and contractions. But over the last 12 months there have been only 251,000 payrolls gained. It is because of the hard-stop of immigration and some degree of deportation, and the run-off of federal employment to levels not seen since 1966. Yet over the same 12 months real private sector growth has been 3.39%. With hours worked slightly down, more than all of that is due to productivity growth. It has been reflected in 28.7% forward earnings estimate growth for the S&P 500, and a similar rally in stock prices. Despite having raised the bar, this earnings season has had the third largest surprise factor in the history of the data. What can top that going forward? Oil prices returning to normal this year and at least one rate cut are potential upside surprises still to come.

alternating months of payroll gains and contractions.

- Good to break that streak. Nevertheless, it's been a terrible 12 months for the labor market cumulatively.
- Over that time payrolls have only increased on net, given all the ups and downs, by 251,000. Not so long ago a number like that for any *one month* would have been about normal – now that's all we could do in a whole year.
- Why? It's two exogenous shocks – not to the economy, but to the labor market itself – and both the result of policy in the second administration of President Donald J. Trump.
- The hard-stop in immigration, some degree of deportation, and likely a greater degree of self-deportation have been one of the shocks (see, among many, [“On the May Jobs Report: Immigration in Reverse while the Fed Hallucinates”](#) June 6, 2025). Immigration explained something like two thirds of the job gains from mid-2022 through early 2025, and now it has stopped, indeed it has been running to some extent in reverse. Over the last twelve months, it's probably been responsible for something like 100,000 outright job losses through deportation that went unreplaced by new immigrants, and had to be made up by absorbing new native-born entrants into employment – only about 65,000 per month, given the age demographics.
- There's another element worth highlighting, too. That 251,000 payrolls gained is the net of 511,000 private sector payrolls gained less 260,000 public sector payrolls lost. More than all those losses are 311,000 were in the federal government – some of which might have been DOGE'd, but most simply due to natural attrition that deliberately went unreplaced. Fun fact: federal government payrolls at 2.66 million are the lowest since 1966! The all-time peak was in October 2024 at 3.01 million, the month before Trump was re-elected president.
- So the first question to ask is: why no recession?
- Typically, the onset of a recession closely correlates to the onset of a payroll contraction cycle – statistically, the two are virtually synonymous and reciprocally defining.
- This time, we don't visibly have the onset of a payroll contraction cycle. It's more like a plateau.
- That's because, typically, as a business cycle expansion tops out, incipient economic weakness causes firms to lay off employees and that becomes a vicious cycle of cause-and-effect.
- This time payrolls have stalled out because of the two shocks to the labor market itself, rather than the slowing of the general economy. So if there is going to be a recession here, it has to start with the lines of cause and effect running the opposite direction – the sheer lack of jobs growth would have to cause economic weakness, rather than the usual situation where it is the other way around.
- But the uniqueness of this situation is all the more fascinating because, over this year of labor market stagnation, overall economic growth has been very strong.
- Over the last four quarters, real private sector output is up 3.39%.

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AI podcast version

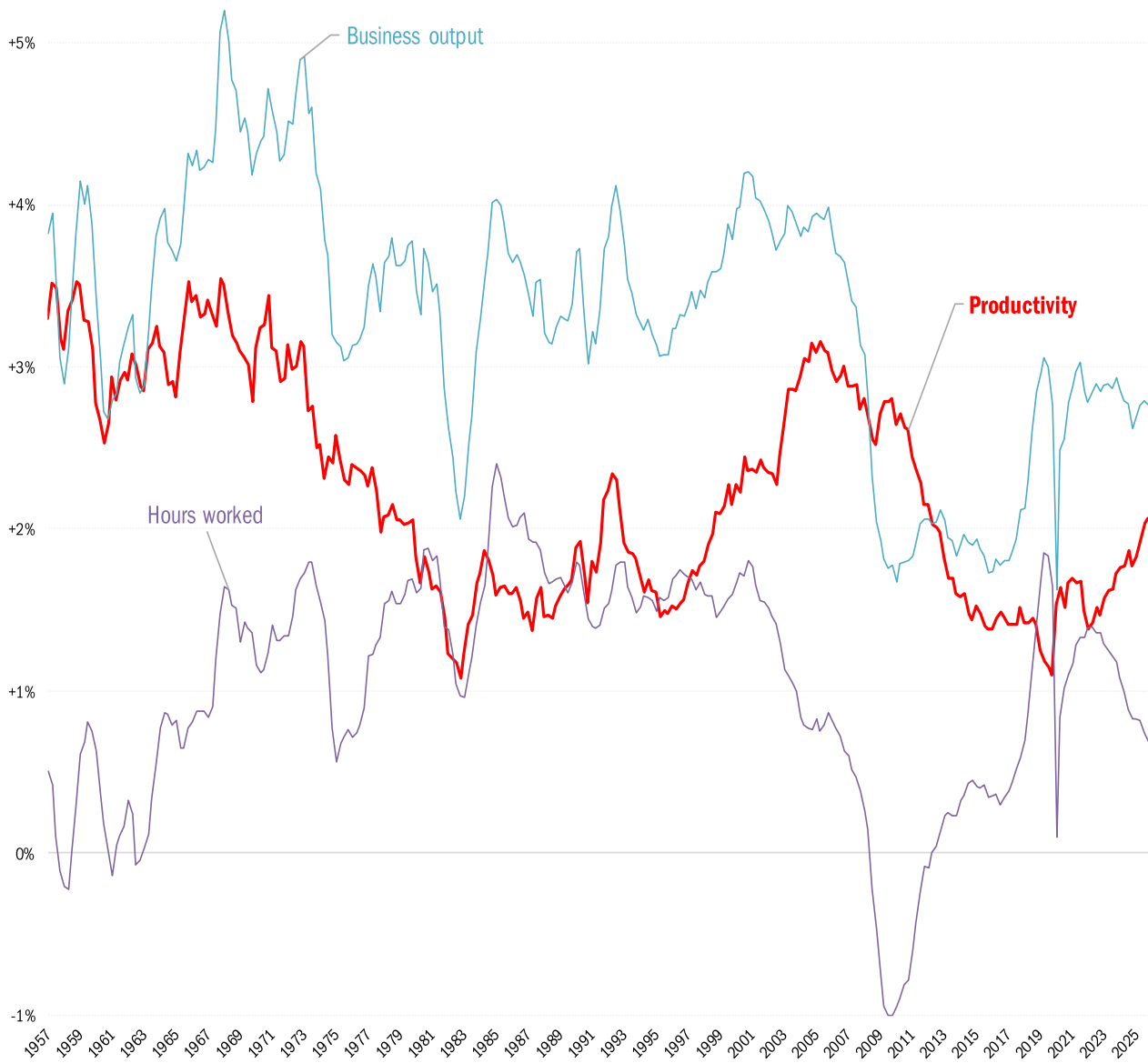


[Click here](#) to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

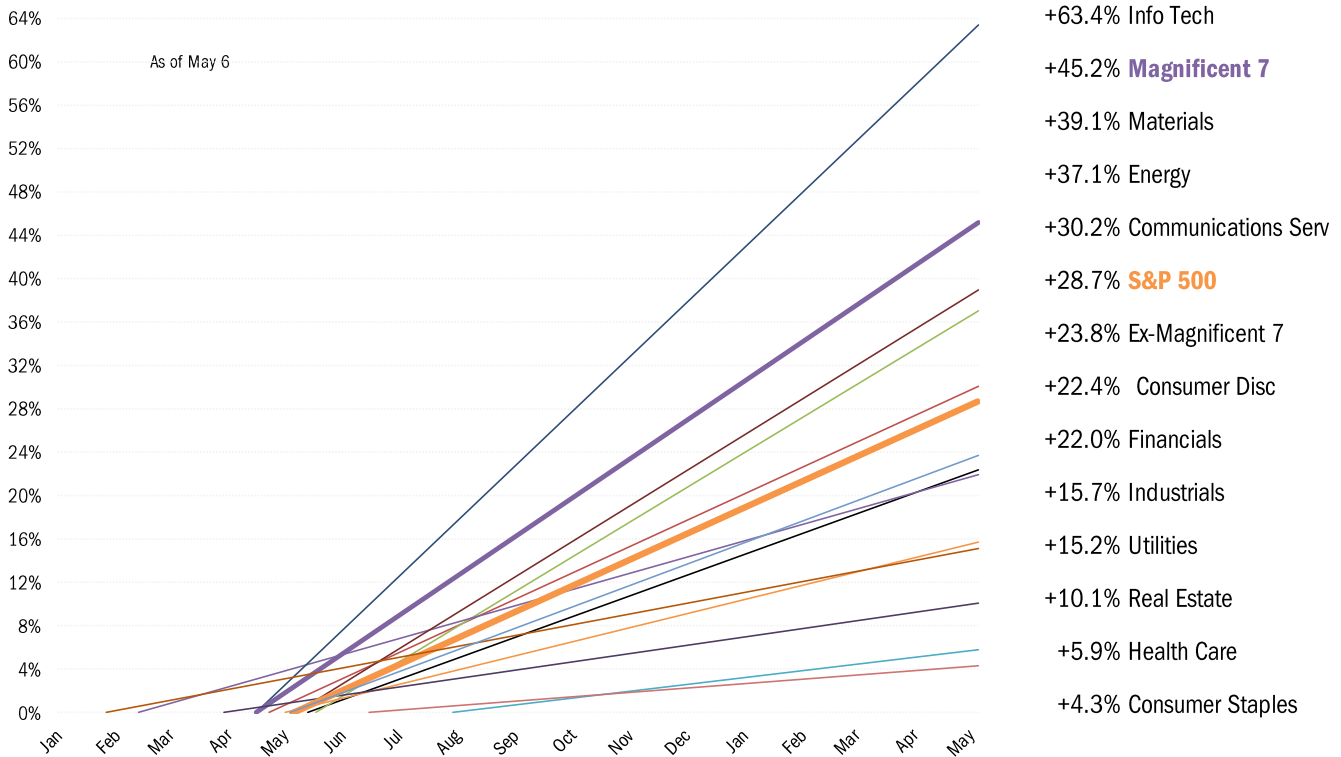
- Yet while payrolls have grown so little, hours worked have actually fallen by 0.05%.
- How is that possible without more people in more jobs working more hours making the economy bigger? How can we be producing so much more honey without more bees?
- You know the answer – productivity. Productivity = growth in output per hours worked. Fewer hours. More output. Productivity (please see the chart below, and [“Video: What you're not hearing about the most important concept in economics”](#) December 4, 2025).
- Productivity growth over the last four quarters has been 3.44%. The average over the history of the data is 2.25%.
- With more honey being produced without more bees, individual bees get wealthier.

10-year CAGR of output, hours and productivity, and linear trends (Q1-26 estimated)

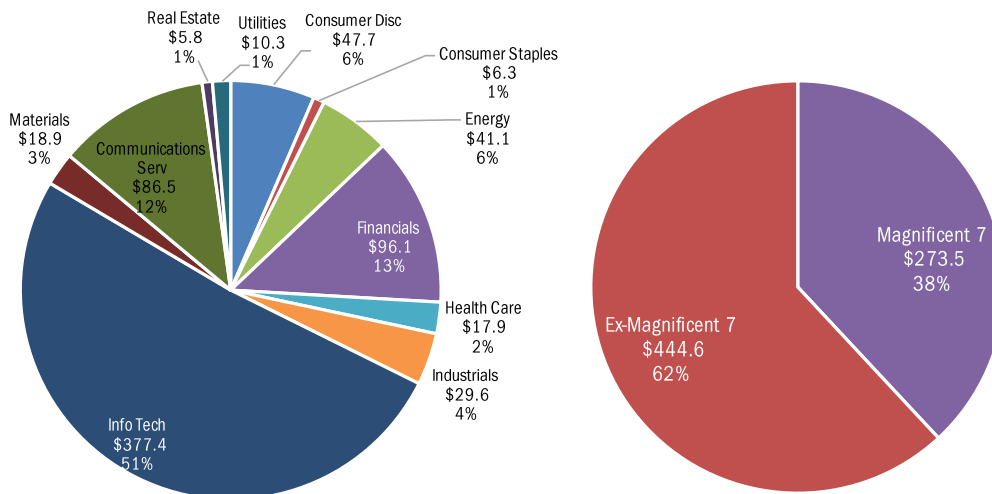


Source: BLS, BEA, TrendMacro calculations

S&P 500 forward earnings from respective sector 2025 bottoms (USD billions, log scale)



Share of S&P 500 total \$712.9 billion from May 6



Source: Bloomberg, TrendMacro calculations

- From 2022 when the yield curve inverted and across much of 2024, there was a unanimous consensus that the economy was about to go into recession, if it wasn't already there. We stood alone and said, no, you can't have a recession without a payroll contraction. (see among many ["Two Faddish Indicators and Their Flaws"](#) September 9, 2024). We were very right.

- Now it's a version of the opposite: *you can have a boom without a payroll expansion*. At least you can if you have high productivity growth, and that's exactly what we have.
- We're in a generational productivity supercycle. We called it six years ago when it was born in the depths of the pandemic lockdowns (see ["On the March Jobs Report, and Being in Recession \(Whatever that Means\)"](#) April 3, 2020). We've continued to be its cheerleaders as the learnings from the pandemic period have been plussed-up by the advent of AI (see ["Video: What you're not hearing about how AI is already powering a productivity supercycle"](#) December 22, 2025).
- This is why we can be in what so many are calling World War 3 and an oil crisis worse than all the others rolled into one (see ["Dire Strait"](#) April 7, 2026) and stock markets around the world are making new all-time highs.
- This is why, during this year of labor market stagnation, *we have just passed the one-year anniversary of the May 6, 2025 bottom in a quarter-long bear market for S&P 500 earnings estimates – with an astonishing cumulative upgrade of 28.7%* with the S&P 500 rising almost the exact same amount over the same period (please see the chart on the previous page). This is unprecedented mid-cycle earnings growth.
- *How can you top that?*
- *We just did.* Despite having raised the bar on estimates like that, *this present earnings season is tied for third-best in the history of the data*, with a positive surprise factor only exceeded by the unexpectedly rapid recovery quarters just after the pandemic lockdown depression. And it's not just information technology. That's the sector with the biggest surprise factor, but a close second is the consumer discretionary sector.
- Okay – how do you top *that*?
- What positive surprises are left?
- How about oil prices returning to a normal level like \$80 rapidly, just as the futures markets have been predicting all along (see ["What you're not hearing about what markets are predicting for the Iran crisis"](#) March 23, 2026), making the present bump in statistical inflation, well, "transitory"?
- How about the markets being completely wrong that there won't be any Fed rate cuts this year (see ["On the April FOMC"](#) April 29, 2026)?

Bottom line

The Court of International Trade struck down Trump's Section 122 tariffs, striking a pro-growth blow for lower taxes. 115,000 net payrolls beat the consensus for 65,000 and broke the 11-month streak of alternating monthly payroll gains and contractions. But over the last 12 months there have been only 251,000 payrolls gained. It is because of the hard-stop of immigration and some degree of deportation, and the run-off of federal employment to levels not seen since 1966. Yet over the same 12 months real private sector growth has been 3.39%. With hours worked slightly down, more than all of that is due to productivity growth. It has been reflected in 28.7% forward earnings estimate growth for the S&P 500, and

a similar rally in stock prices. Despite having raised the bar, this earnings season has had the third largest surprise factor in the history of the data. What can top that going forward? Oil prices returning to normal this year and at least one rate cut are potential upside surprises still to come. ▶