

MACROCOSM

## On the May Jobs Report: A Pressure Cooker for Warsh

Friday, June 5, 2026

**Donald Luskin**

A great report, and a great leadership challenge for our new Fed chair.

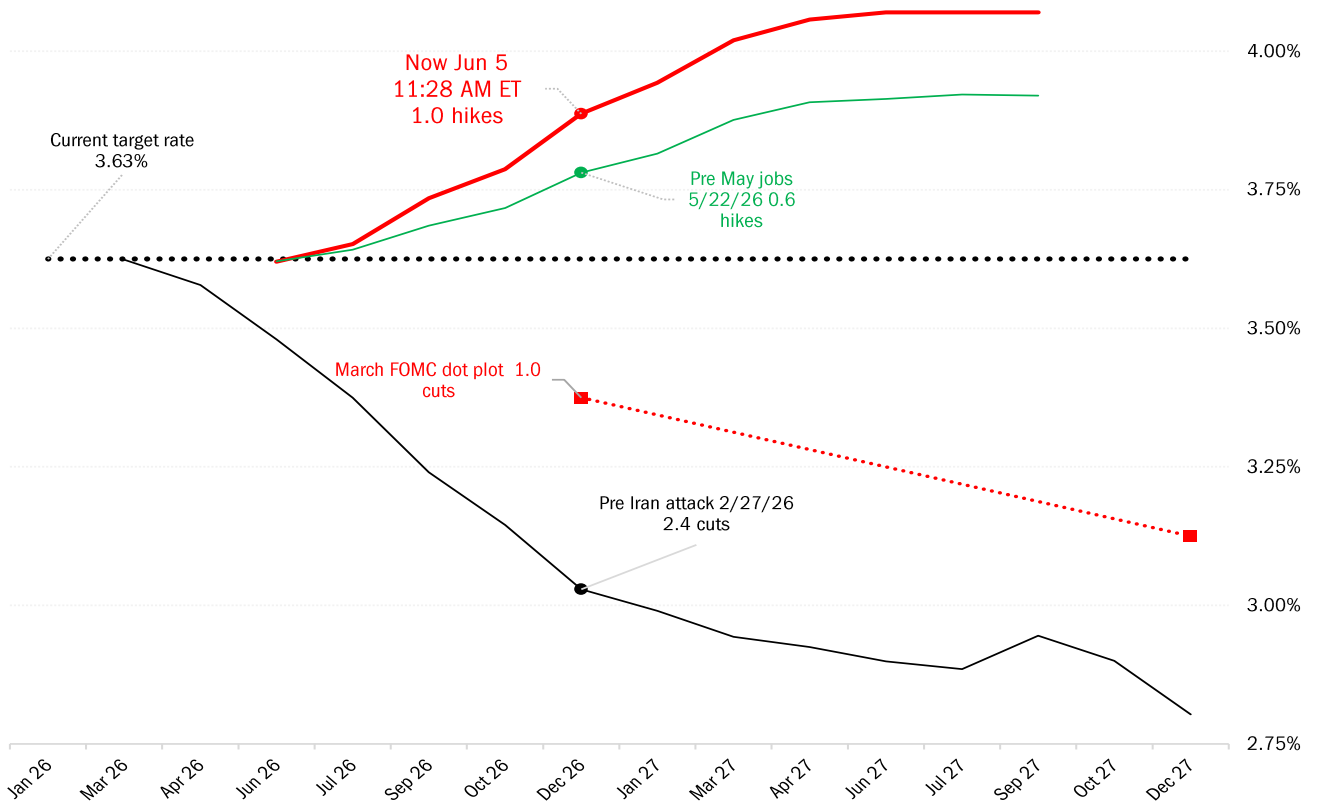
Today's [May Employment Situation Report](#) with *172,000 net payrolls beat the census for 88,000 by almost a factor of two*. Our model based on a broad range of contemporaneous labor market indicators had estimated 157,000 (see "[Data Insights: Jobs](#)" June 5, 2026) – so *we think it's real*. And the "[payroll survey](#)" result is confirmed by the "[household survey](#)" with 149,000 new jobs. This strong reading is made all the more impressive by upward revisions totaling 93,000 (April by 64,000 and March by 29,000). Those prior months had already been strong, breaking to the upside the string of eleven months in which payrolls had alternated every month between gains and losses, and a year with virtually no payroll gains on net

### Update to strategic view

**US MACRO, FEDERAL RESERVE:** A very strong report almost doubling consensus expectations. It is consistent with our model estimate, and...

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Futures-implied policy path per FOMC meeting (based on effective rate, adjusted to target)



Source: Bloomberg, TrendMacro calculations

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(see [“On the April Jobs Report, and the Boom Year of Living Joblessly”](#) May 8, 2026).

The problem of course, is the Fed, in a neurotic and ill-informed inflation panic ever since the onset of the war in Iran – and we warned about this from the first day (see [“Quick Note on Developments in Iran”](#) March 3, 2026). As of this writing, the fed funds futures are more than fully priced for one rate hike by year-end, a new record for hawkish expectations. At year-end, and again just before the onset of war, they were expecting more than two rate cuts (please see the chart on the previous page).

- Today’s jobs report significantly deprives doves on the Fed of a labor-weakness argument for cutting rates. It should not be enough to move hawks – at least not rationally – to a Phillips Curve argument in favor of hiking rates to prevent inflationary effects of an overheating economy. But the Phillips Curve doesn’t show up in the history of the data in the first place – just because it doesn’t exist, now or ever, doesn’t stop hawks from citing it. That’s especially true now, with hawks at the Fed and at central banks everywhere in the world, other than Japan, eager to interpret high oil prices as inflation. Even those hawks who understand it is only a supply-shock nevertheless justify themselves by resorting to fears of inflated inflation expectations – of which there is no evidence now, and which over history have zero correlation with subsequent actual inflation (see [“Video: What you’re not hearing about Chairman Warsh at the crossroads”](#) May 29, 2026).
- This puts incoming Fed chair Kevin Warsh in a terrible situation.
- He is as skeptical as we are of Phillips Curve arguments. But it remains to be seen whether he is persuaded of our view that inflation expectations are an equally phony input to policy. If he is, then he can easily look through a bump in statistical inflation driven by an energy shock. Hey, even former chair Jerome Powell said at the March FOMC that it was “standard learning” to do so (see [“On the March FOMC”](#) March 18, 2026) – but he made it subject to inflation expectations staying tame. And they are tame – so even an FOMC voter who believes they are potentially a threat (again, they never have been over history) need not worry.
- Assuming the best about Warsh, the reality is that he is only one vote. To be sure, there’s no risk that there will be a consensus at the June FOMC ten days hence to raise rates. But “dot plots” will be published. There will be an FOMC statement. There will be a press conference. It will set the tone for the rest of the year, and for Warsh’s entry-period as chair. And if the consensus of the committee is the hawkish one we fear, for the stupid reasons we fear, Warsh may have to dissent, making him the first chair to do so since [Marriner Eccles three dissents in the late 1930s](#).
- Dissenting as chair, especially at his first FOMC meeting, is a risky thing for Warsh. It would likely be imaged by the media as a failure of leadership, because he was unable to bring his committee along with him even in what putatively should be a honeymoon period for him. And there would be a general hue and cry about him

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...confirmed by the “household survey,” so there is no reason to think it isn’t real. It builds on strong upward revisions to the prior two months, and firmly smashes the 11-month pattern of alternating monthly gains and losses. It puts Warsh in a difficult position for this first FOMC meeting. Doves are now deprived of any labor-weakness argument for cutting rates. Hawks are more free to focus on the delusion that an energy price shock is the same thing as inflation, or at least a threat to inflation expectations (which, historically, are uncorrelated with future actual inflation). Warsh’s image as a leader is imperiled whether or not he dissents at the FOMC. The most suave political maneuver would be to go along with no change in rates, but dissent against any hawkish changes in language that the committee may force on him, or against a failure to shift to more dovish language. That would be sufficient to cause record market-implied rate hike expectations to recede.

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attempting to undermine the Fed's independence – though all it would be is Warsh expressing his own independence as a leader.

- *But not dissenting would be risky too.* If it is the truth that he disagrees with his committee, then it would equally be a failure of leadership to fail to say so. The press will likely pillory him either way.
- *But what exactly would he dissent about in the first place?*
- Again, there's no chance of a rate hike with which he would have to disagree. *That's his worst-case scenario,* in which it would appear his committee was in outright mutiny.
- There's a high likelihood of leaving rates unchanged. Would he dissent in favor of a rate cut? *He's at risk whether or not he does. Probably the most suave minimax solution for him would be to not dissent in favor of a cut, but to dissent in favor of more dovish language – as three members dissented at the prior meeting in favor of more hawkish language* (see ["On the April FOMC"](#) April 29, 2026) – *and then explain himself at length in the post-meeting presser, and get busy persuading his committee (and praying that oil prices come down).*
- If that's the way it goes – and that is our baseline expectation – then today's record expectations for a rate hike this year should significantly recede.

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#### AI podcast version



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#### Bottom line

A very strong report almost doubling consensus expectations. It is consistent with our model estimate, and confirmed by the “household survey,” so there is no reason to think it isn't real. It builds on strong upward revisions to the prior two months, and firmly smashes the 11-month pattern of alternating monthly gains and losses. It puts Warsh in a difficult position for this first FOMC meeting. Doves are now deprived of any labor-weakness argument for cutting rates. Hawks are more free to focus on the delusion that an energy price shock is the same thing as inflation, or at least a threat to inflation expectations (which, historically, are uncorrelated with future actual inflation). Warsh's image as a leader is imperiled whether or not he dissents at the FOMC. The most suave political maneuver would be to go along with no change in rates, but dissent against any hawkish changes in language that the committee may force on him, or against a failure to shift to more dovish language. That would be sufficient to cause record market-implied rate hike expectations to recede. ▶