Press Release

Freddy’s Forecast: November Jobs

PAULINA ENCK | DECEMBER 5, 2024

Director of Competition Policy Fred Ashton predicts the results of the monthly employment survey. This month, Ashton writes:

> *Expect a post-hurricane and strike rebound in the topline payroll number of 220,000 and possible upward revisions to the prior month. The unemployment rate will tick up to 4.2 percent while growth in average hourly earnings will increase by 12 cents or 0.3 percent.*

See below for his full analysis.

THE MISPLACED FOCUS ON MANUFACTURING JOBS

Both the Trump and Biden Administrations made protecting – and even expanding – jobs in the manufacturing sector a centerpiece of their economic agendas. President Trump negotiated the United States-Mexico-Canda Agreement to favor domestic manufacturing, President Biden passed the CHIPS and Science Act and the Inflation Reduction Act to subsidize certain manufacturing industries, and both presidents used tariffs to ward off foreign competition.

Despite the tens of billions of dollars in federal spending and increased consumer costs, a manufacturing employment renaissance failed to materialize. Manufacturing employment expanded 4.1 percent between January 2017 and October 2024, underperforming overall employment growth of 9.2 percent. As a result, the manufacturing sector’s share of employment fell from 8.5 percent to 8.1 percent.

This underperformance is hardly a reason for the incoming administration to double down on past policy failures. The focus on jobs is misplaced. Instead, the next Trump

Administration should focus its efforts on improving manufacturing productivity. Manufacturing labor productivity has been in steady decline since 2011, and total factor productivity hasn't budged either. It's awfully difficult to expand manufacturing employment when workers are less productive than they were a decade ago.

Increasing manufacturing productivity requires a proper mix of people and capital. Labor uses that capital to increase productivity. But there are barriers buried in the tax code that disincentivize the capital deepening necessary to boost labor productivity. AAF Board Member Kevin Brady and President Doug Holtz-Eakin testified before the Joint Economic Committee in November regarding the benefits that would come from making expensing of investments and research and development expenditures permanent. One such benefit would be removing "a tax consideration from the choice among wages, investment in skills, investment in physical capital, and investment in innovation." In other words, removing the bias against capital embedded in the tax code in favor of a more neutral tax policy would enable firms to choose the best mix of labor and capital for growth rather than a mix best suited for the tax code.

Increased labor productivity is where the incoming president should focus his attention. Gains in productivity lead to higher real wages and a better standard of living. Allowing businesses to focus on growth rather than tax efficiency will most certainly give the boost to employment that Presidents Trump and Biden have been searching for all along.

FREDDY'S FORECAST: NOVEMBER JOBS

The October jobs report showed employers added 12,000 new hires to the payrolls while the unemployment rate held steady at 4.1 percent. Hourly earnings rose by 4.0 percent over the past 12 months. The data were clouded by the effects of hurricanes Helene and Milton, but the Bureau of Labor Statistics said it was "not possible to quantify the net effects on the over-the-month change in national employment." Moreover, worker strikes negatively affected manufacturing employment during the month.

Since the last report, the labor market continued to show signs of cooling. ADP reported that private-sector employment increased by 146,000 jobs. Details in the report showed that the bulk of the hiring came from medium and large businesses while small businesses shed 17,000 jobs. The manufacturing sector slashed 26,000 jobs but was buoyed by continued strength in the education and health services sector (+50,000).

JOLTS data showed that job openings increased but remained firmly in a downward trend, while the number of hires dipped to its lowest level since June. The ratio of job openings per available worker was 1.1 percent, where it has held steady since July.

The institute for Supply Management showed that hiring in the manufacturing sector continued to contract in November, albeit at a slower rate than in the prior month. In the services sector, ISM reported the pace of hiring downshifted from the prior month.

High-frequency data from the Department of Labor showed that weekly initial jobless claims ticked up by 9,000 to 224,000 but showed no signs that the labor market was deteriorating at a more rapid pace.

Expect a post-hurricane and strike rebound in the topline payroll number of 220,000 and possible upward revisions to the prior month. The unemployment rate will tick up to 4.2 percent while growth in average hourly earnings will increase by 12 cents or 0.3 percent.