Press Release

Jordan's Judgment: October Jobs

PAULINA ENCK | OCTOBER 31, 2024

Director of Fiscal Policy Jordan Haring predicts the results of the monthly employment survey. This month, Haring writes:

> *Expect the topline payroll number to fall to 115,000 and the unemployment rate to tack back up to 4.2 percent. Growth in hourly earnings remains unchanged at 13 cents, or 0.4 percent.*

See below for her full analysis.

THE NEXT PRESIDENT'S FISCAL CHALLENGES

Whoever wins the presidential election will face many fiscal challenges throughout their term – and regrettably, most of which were ignored or exacerbated in their previous administrations. Let's briefly walk through key challenges.

Challenge #1: High and rising debt levels

At the end of fiscal year (FY) 2024, federal debt held by the public totaled 98 percent of gross domestic product (GDP); in nominal dollars, that's $28.3 trillion. The Congressional Budget Office (CBO) projects that debt will reach a record 106.2 percent of GDP ($33.9 trillion) by the end of FY 2027 – surpassing the prior record of 106.1 percent of GDP set just after World War II in FY 1946 and more than twice the 50-year historical average of 48 percent of GDP. FY 2027 falls within the next presidential term and CBO's projections assume current law; that is, no new borrowing occurs to finance spending increases or tax cuts. Both presidential candidates have put forward massive tax and spending plans, but neither intends to address the nation's debt challenge (for a possible framework, see AAF's plan). In fact, the candidates' proposals would likely increase debt levels far above those

projected under current law.

Challenge #2: Rising interest payments

In FY 2024, the federal government spent $882 billion on interest payments on the national debt, much more than it spent on Medicare, national defense, Medicaid, food and nutrition services, and many other federal programs. In fact, net interest was the second-largest government expenditure behind Social Security. The nation is effectively spending more on servicing the past than making productive investments in the future, and every dollar spent on interest payments is a dollar unavailable to fund other priorities or an additional dollar that must be raised through more taxes or borrowing. CBO projects interest payments will grow 10 percent over the next presidential term.

Challenge #3: Impending trust fund insolvency

Three federal trust funds are quickly approaching insolvency. CBO projects that the Highway Trust Fund will exhaust its reserves by the end of FY 2028, at which point all highway spending will be slashed by 47 percent absent new legislation. The Medicare Trustees estimate the Hospital Insurance (Medicare Part A) trust fund will run out by the end of calendar year 2031, at which point Part A spending will be cut by 11 percent. Finally, the Social Security Trustees project the Social Security Old-Age and Survivors Insurance trust fund will become insolvent by the end of calendar year 2033, at which point all beneficiaries regardless of age, income, or need will see their benefits cut by 23 percent (I previously estimated that this amounts to a $15,900 reduction in annual benefits for a typical middle-income, dual-income couple). Unfortunately, neither presidential candidate has put forward a plan to address the trust funds' imbalances.

Challenge #4: Looming expirations and possible costly extensions

On September 30, 2025, the Fiscal Responsibility Act-enacted caps on defense and nondefense discretionary spending will expire, meaning there will be no statutory limit on annual appropriations. The decision over whether to extend the caps or engage in what could end up being a spending free for all will have budgetary implications over the next president's term and beyond. The enhanced Affordable Care Act premium tax credits will sunset on December 31, 2025, and extending them without offsets would cost $335 billion through FY 2034. Last, and most significant, many of the Tax Cuts and Jobs Act's individual and business tax provisions will expire on December 31, 2025. CBO estimates making them permanent without offsets would cost $4 trillion through FY 2034.

JORDAN'S JUDGMENT: OCTOBER JOBS

The September jobs report crushed expectations and showed that employers added 254,000 new hires to their payrolls while the unemployment rate ticked down from 4.2 percent to 4.1 percent. Wage gains were up 4.0 percent from September 2023, an increase from the 3.8 percent reported in August.

The September jobs report and the revisions to the July and August reports further confirm that the labor market is cooling. In fact, the Fed may use this as evidence to cut interest rates again when it meets in November. At its September meeting, the Fed cut interest rates by 50 basis points, the first rate cut in over four years.

ADP reported that 233,000 workers were added to private-sector payrolls, the highest level of job creation since July 2023. The manufacturing sector lost 19,000 jobs after adding 2,000 jobs in September. Meanwhile, the leisure and hospitality sector added 37,000 jobs, the construction sector added 37,000 jobs, the education and health services sector added 53,000 jobs, the trade, transportation, and utilities sector added 51,000 jobs, and the professional and business services sector added 31,000 jobs. The information sector added 7,000 jobs after losing 10,000 jobs in September.

Initial employment claims and JOLTS data confirmed that the labor market continues to cool and is starting to resemble its pre-pandemic days. For the week ending October 26, initial claims decreased by 12,000 to 216,000 while layoffs in the JOLTS report remained relatively unchanged. JOLTS data also showed that the number of job openings fell from 7.9 million in August to 7.4 million in September and were below expectations of 7.9 million. The ratio of available job openings per available worker remained constant at 1.1, about half of where it was at its peak in early 2022.

With downward pressure from a large strike at Boeing and several hurricanes disrupting data collection, the United States is expected to have added significantly fewer jobs in October than in September. Expect the topline payroll number to fall to 115,000 and the unemployment rate to tack back up to 4.2 percent. Growth in hourly earnings remains unchanged at 13 cents, or 0.4 percent.