# Major downward revisions to US jobs pushes the Fed to act

The Bureau for Labor Statistics has acknowledged that its non-farm payrolls estimates were above the levels shown by tax records to the tune of 818,000. So rather than adding 2.9mn jobs in the 12M to March 2024, there were only 2.1mn new jobs. This means labour market momentum is being lost from a  weaker position than originally thought


The US Bureau of Labor Statistics has revised downward the estimates for non-farm payrolls by 818,000 for the 12 months to March 2024

**818,000** downward revisions to US employment

After quite a bit of delay and confusion we have finally got the preliminary benchmark revisions to US non-farm payrolls – where the Bureau for Labor Statistics (BLS) adjusts its estimates for non-farm payrolls to reflect official tax data – the true benchmark for US employment. It is a chunky 818k, meaning that rather than 2.9mn jobs added in the 12M to March 2024, it was "only" 2.1mn –

equivalent to a 0.5 percentage point error on payrolls. So rather than averaging monthly payrolls gains of 246,000 it was only 178,000.

Historically, the BLS has been out by 0.1pp with its estimates versus the tax data – that is the 10Y average. Last year they were out by 0.2pp, requiring a 306k downward revision so today's announced change is a big error and suggests there are some clear issues regarding some of the assumptions the BLS uses to complement its surveys of US businesses. The BLS has a good handle on what is going on amongst large employers, but has less visibility on the small business sector and has a "births-death" model.

In steady times, their assumptions are accurate, but at turning points in the cycle they can be significanty wrong – so in the early stages of a downturn they tend to overestimate the jobs created by new start-ups – "births" – and underestimate the number of jobs lost by the "death" of failing small businesses

In that regard it adds to doubts about the quality of the jobs numbers since March. Given that everything was weak in the latest July jobs report – weak payrolls, rising unemployment, falling hours worked and cooling wages – today's update will only put more pressure on the Fed to loosen monetary policy. Momentum is being lost from an even weaker position than originally thought.

Our monthly forecast update round coincided with the market volatility of two weeks ago and we changed our three 25bp rate cut call for this year to one whereby the Fed could cut by 50bp in September before reverting back to 25bp moves in November and December with the policy rate reaching 3.5% by summer 2025. Financial markets are currently favouring the Fed delivering a 25bp interest rate cut on 18 September following better retail sales numbers and signs of resilience in jobless claims, but are still pricing close to 100bp of cuts in total for 2024. 6 September is the big date to really move markets with the August jobs report. A rise in unemployment to 4.4% or 4.5% would certainly boost the case for an 18 September 50bp rate cut.

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