

15 August 2024

US Labour Market Monitor

The Sahm rule could overstate economic weakness

Since our last update, the narrative of the Fed delivering rate cuts has gained momentum, as the July Jobs Report came in weaker than expected. Nonfarm payrolls (NFP) stood at 114k (cons: 175k), and the June figure was revised down by 27k. At the same time, wage pressure eased further, declining to 0.2% m/m SA from 0.3%. **Notably, the Sahm rule for recession was triggered (3M MA unemployment rate 0.5% above its 12M low), as the unemployment rate increased to 4.3%. We agree the labour markets are cooling but are not yet convinced the economy is facing a deeper slowdown.**

While difficult to quantify, the weak July NFP print was likely affected by hurricane Beryl as the data collection coincided with the negative effect seen in Texas jobless claims. **If these disruptions were temporary, they could possibly impact the August NFP data positively offsetting some of the recent weakness.**

Some leading indicators also stood in contrast to the weak NFP figures. Data from NFIB signalled that job openings and firms' hiring plans remained steady compared to the previous month, while most of PMI employment indices continued to increase.

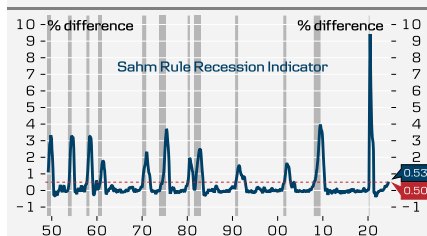
The ratio of unfilled vacancies per unemployed remained near the pre-pandemic level of 1.2. BLS's labour force flow data signalled a significant flow from employment to unemployment, but alternative indicators for actual layoffs still remain very low. Strong labour productivity growth has also helped to alleviate firms' labour cost pressures.

The uptick in unemployment largely reflected the ongoing recovery in labour supply, which was attributed to both prime-age (25-54y) and foreign-born workers joining the labour force. Over the Sahm rule's 3-month lookback period, immigration added 792k new workers to the work force, and 765k came from the prime-age group. **While markets have been ringing the recession bells, the increasing labour supply is positive for growth over the long term, especially in a macro environment that has been affected by labour shortages.**

Looking ahead, we believe labour supply will continue to recover, with immigration playing a key role. National immigration inflow for the fiscal year of 2024 (Oct23-Sep24) has so far exceed the level of the same period in prior years. Combined with the delayed issuance of work permits for immigrants, this inflow of immigrants will likely further boost labour supply and ease labour market tightness.

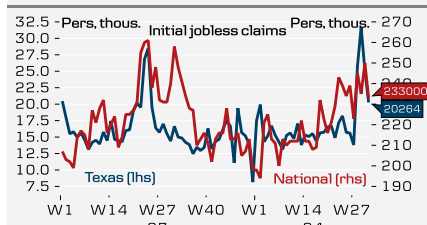
Accordingly, we agree the cooling tide is prevailing and will continue, but do not expect a recession on the horizon for now. Today's labour market dynamics, characterized by growing labour supply, are different from what caused previous recessions. Historically, these have been triggered by weakening demand for workers, suggesting that this time the Sahm rule might be overstating the recent economic weakness. **We still expect the Fed to cut rates by 25bp in September and December.** If data continues to cool, policymakers could opt for a more traditional easing cycle with cuts in every meeting, but we think the bar for 50bp reductions remains high for now.

The Sahm rule has been triggered



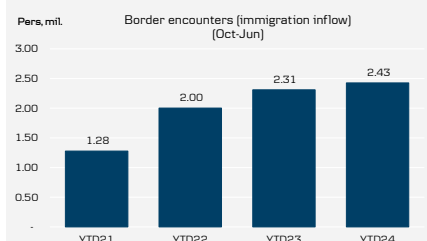
Sources: Macrobond Financial, Federal Reserve Bank of St. Louis

Hurricane Beryl affecting initial jobless claims



Sources: Macrobond Financial, U. S. Department of Labor

Year-to-date* immigration inflow is higher than in previous years



Sources: U.S. Department of Homeland Security, Danske Bank

*Year-to-date is Oct-Jun

Senior Analyst

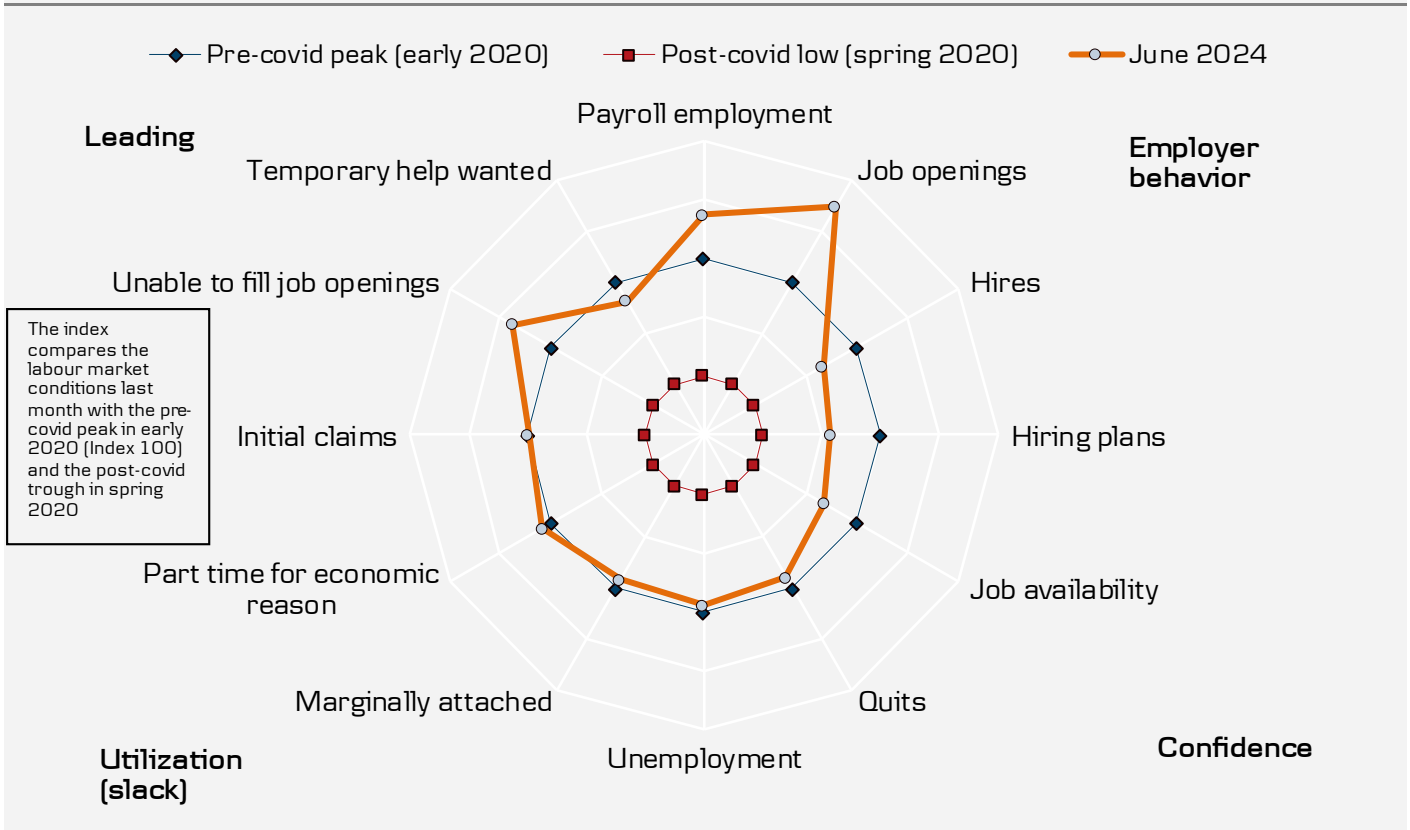
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US labour market in one chart

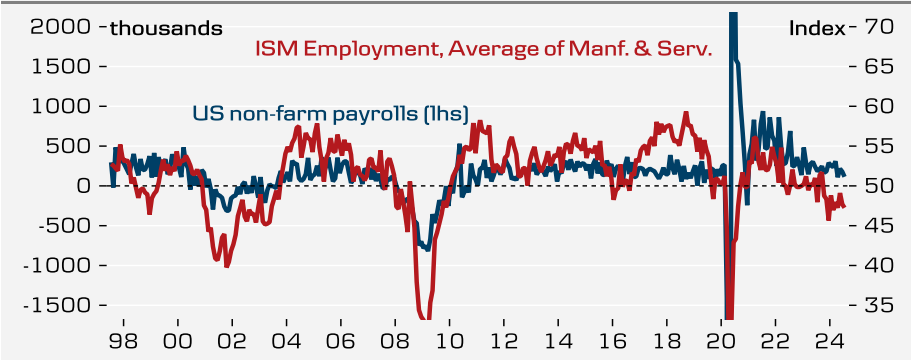
Labour market conditions vary across sectors and employers are holding on to their workers. As such, labour shortages still persist on some sectors even if hiring overall has already cooled down clearly



Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in the pre-covid peak in early 2020 (index=100) and post-covid trough in spring (index = 0). Counter-cyclical figures (jobless claims, marginally attached and working part time for economic reasons) are inverted; thus, the higher index (the further from the middle) the better (tighter) is the state of the labour market. For JOLTS data we have used the average of the past two observations as the newest figures
 Source: U. S. Bureau of Labor Statistics (BLS) (JOLTS), Atlanta Fed, Macrobond Financial

ISM employment vs nonfarm

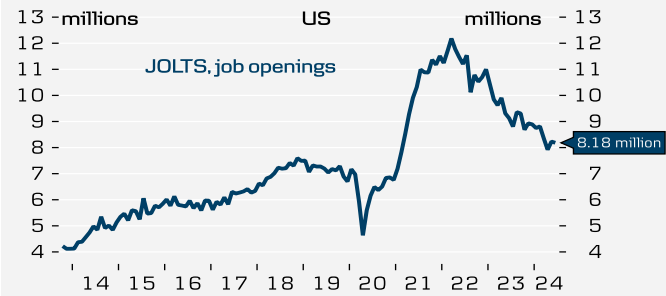
ISM employment indices point towards some easing in nonfarm payrolls growth



Source: Macrobond Financial, ISM, BLS

Labour demand

Job openings have largely normalized



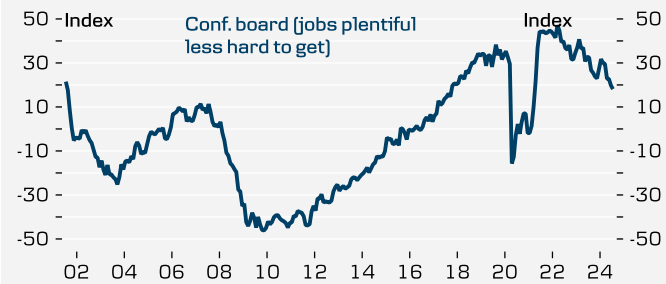
Source: Macrobond Financial, US Department of Labor, BLS

Hiring plans climbing slightly up



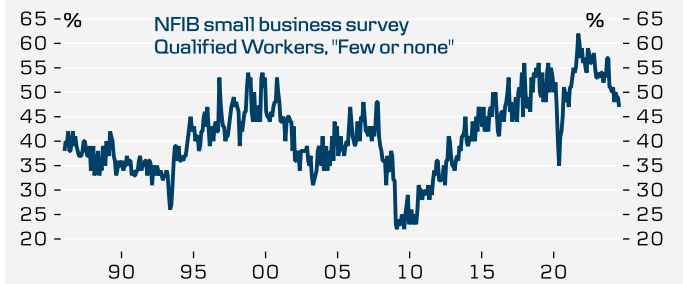
Source: Macrobond Financial, NFIB

Americans still relatively confident in their job prospects



Source: Macrobond Financial, US Department of Labor, BLS

Labour shortages have not yet fully dissipated



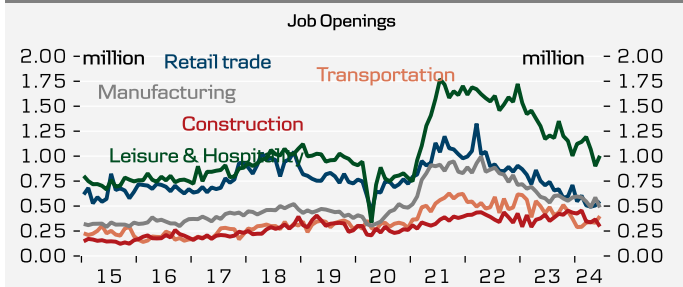
Source: Macrobond Financial, NFIB

Difficulties is down from its historically tight starting point



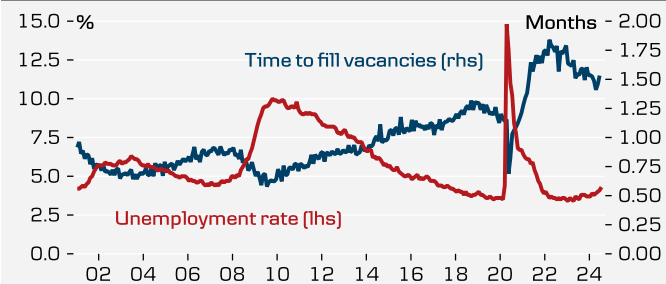
Source: Macrobond Financial, NFIB

Among sectors, Leisure and hospitality remains the hardest hit by the labour shortages



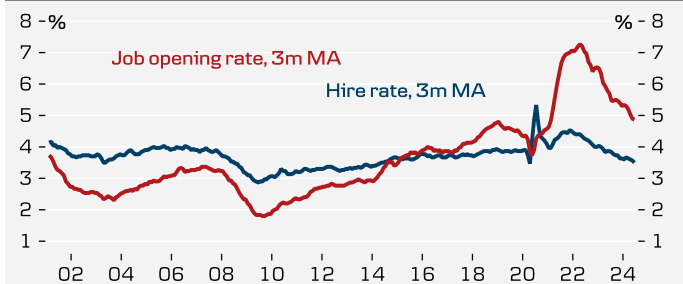
Sources: BLS, Macrobond Financial

Unemployment rate ticks up



Source: Macrobond Financial, BLS

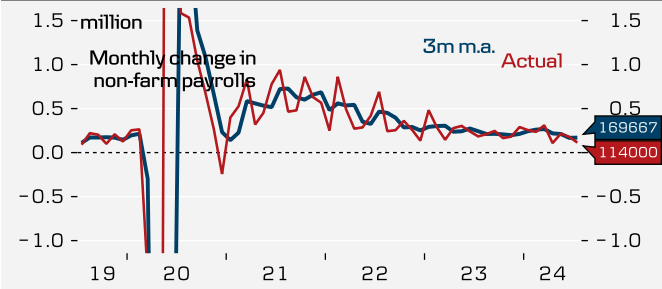
Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

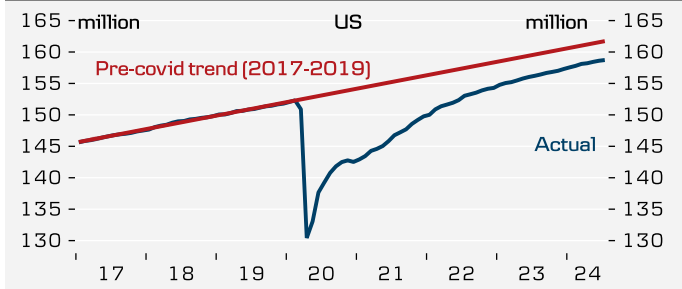
Employment measures

Employment growth declining somewhat



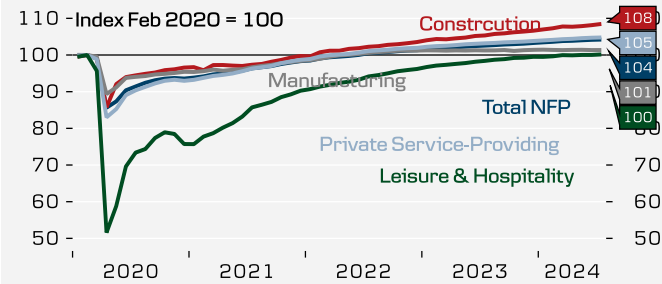
Source: Macrobond Financial, BLS

Employment above pre-covid level, but still below trend



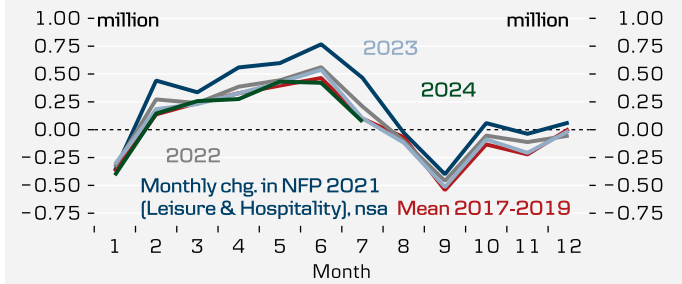
Source: Macrobond Financial, ADP

"Leisure & Hospitality" sector at the February 2020 employment level



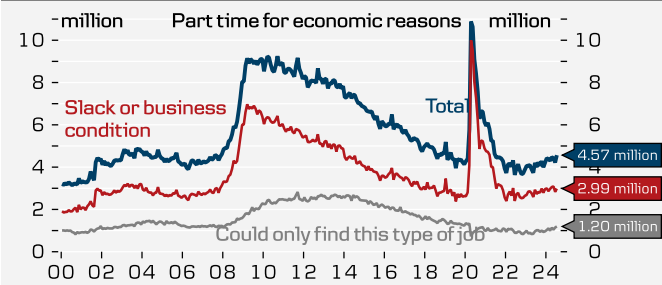
Source: Macrobond Financial, BLS

Labour shortages continue to limit the recovery in leisure & hospitality employment



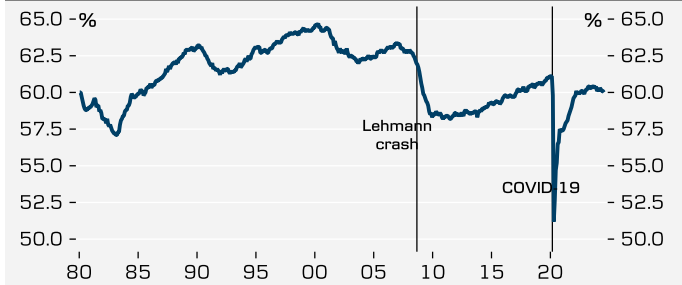
Source: Macrobond Financial, BLS

Fewer people working part-time for economic reasons increasing modestly



Source: Macrobond Financial, BLS

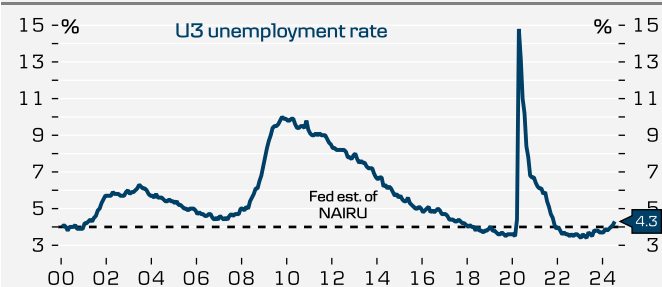
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

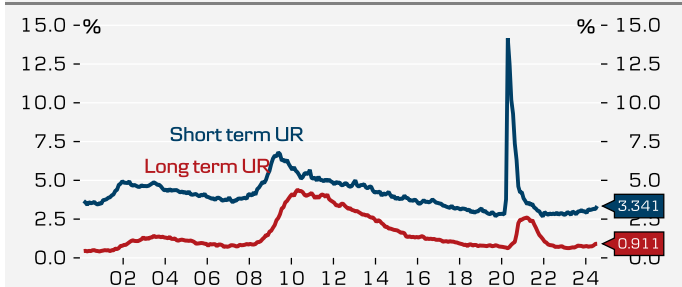
Unemployment measures

Unemployment rate breaching Fed's NAIUR estimate



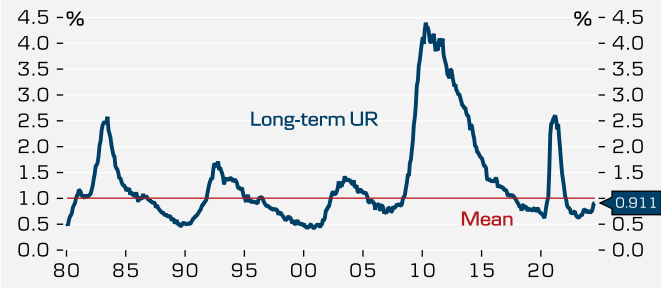
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment moved a bit higher



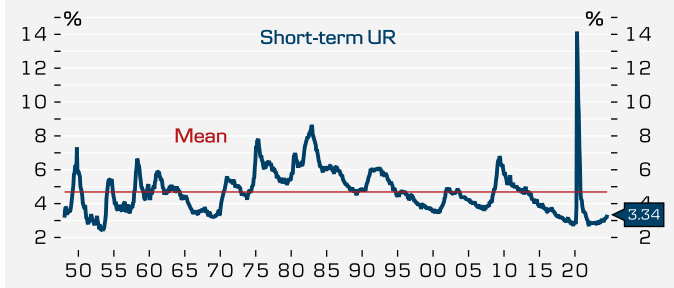
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



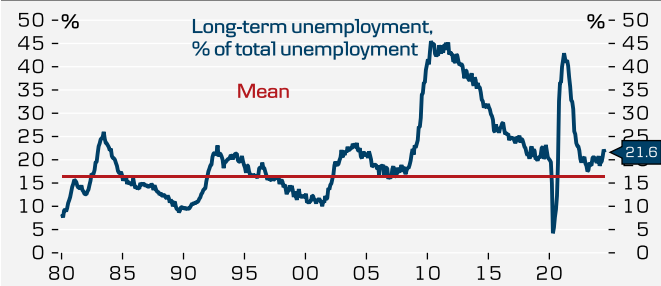
Source: Macrobond Financial, BLS

Short-term unemployment rate below the historical average



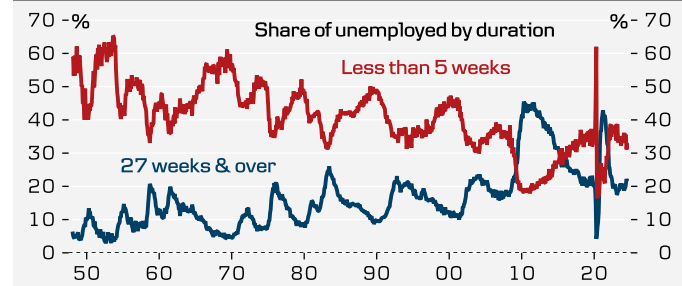
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment remains low



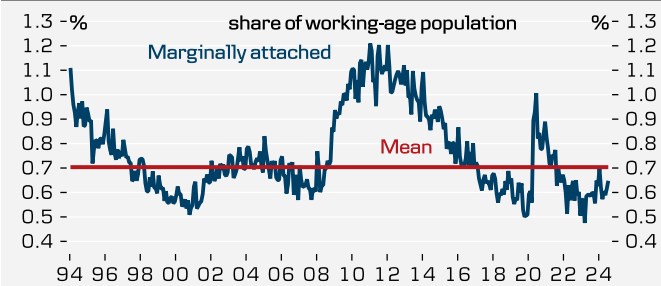
Source: Macrobond Financial, BLS

Long-term unemployment still at low levels



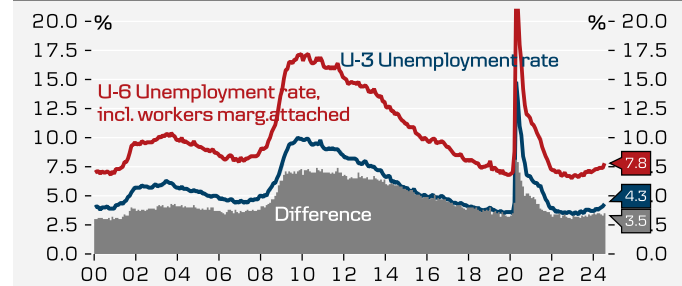
Source: Macrobond Financial, BLS

Marginally attached workers below average



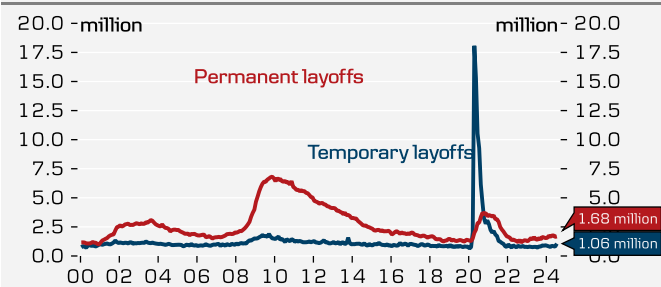
Source: Macrobond Financial, BLS

Unemployment climbing higher



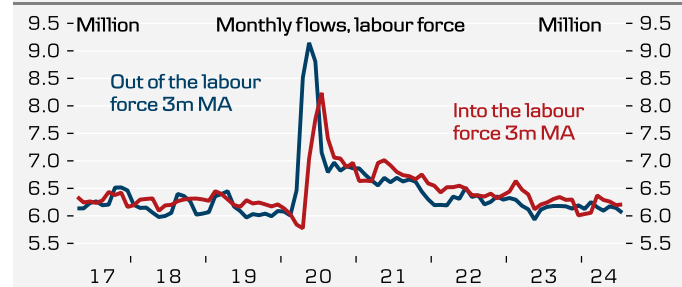
Source: Macrobond Financial, BLS

Permanent layoffs remain low



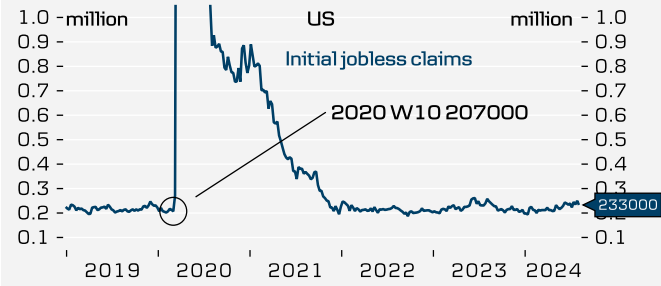
Source: Macrobond Financial, BLS

Labour market flows



Source: Macrobond Financial, BLS

Initial jobless claims have hardly even risen from the lows



Source: Macrobond Financial, Department of Labor

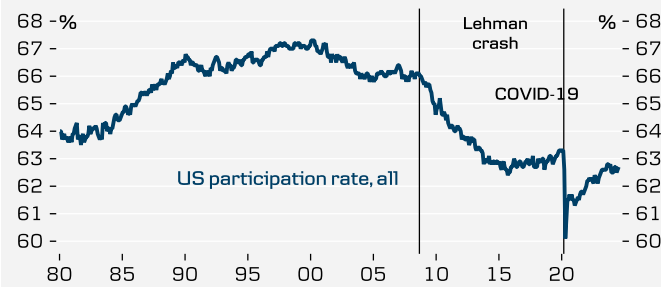
Total continuing claims remain low



Source: Macrobond Financial, Department of Labor

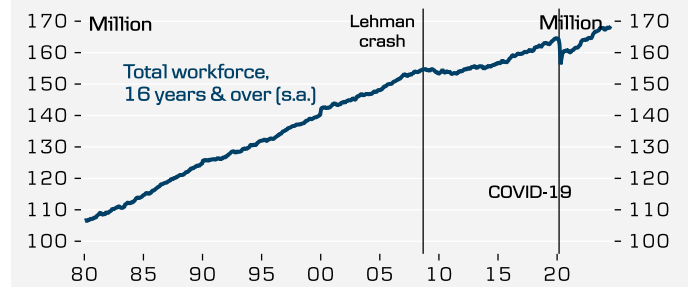
Participation

Participation rate edging a little higher



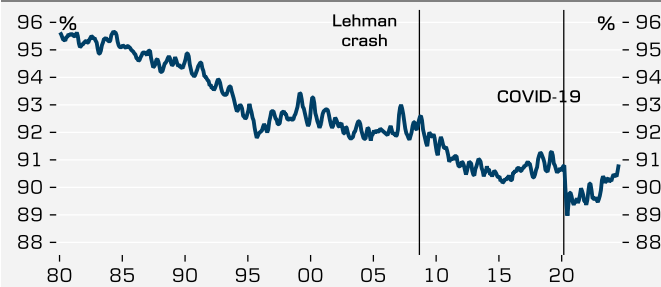
Source: Macrobond Financial, BLS

Labour force recovering, but still below pre-covid trend path



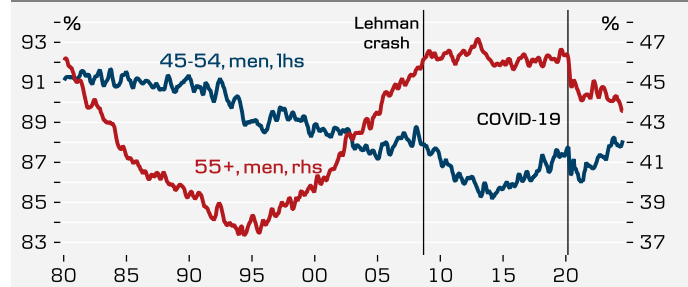
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

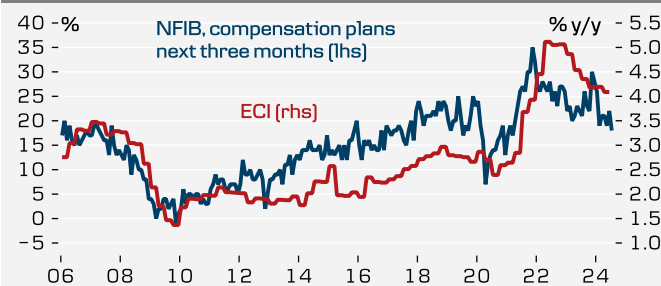
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

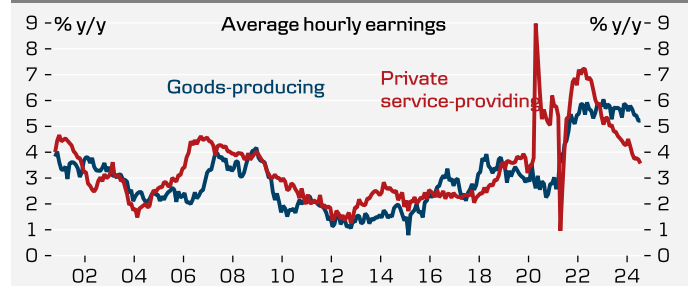
Wage growth and inflation

Employment cost growth creeping slightly lower



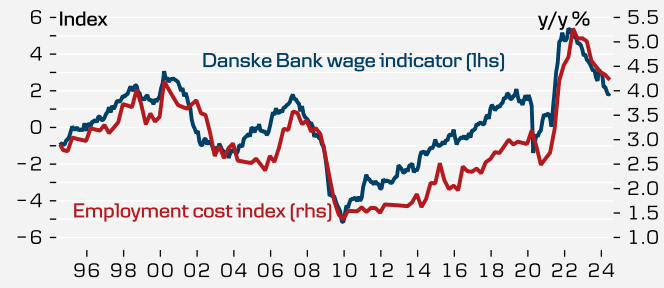
Source: Macrobond Financial, NFIB

Clear signs of easing labour shortages in service-sector



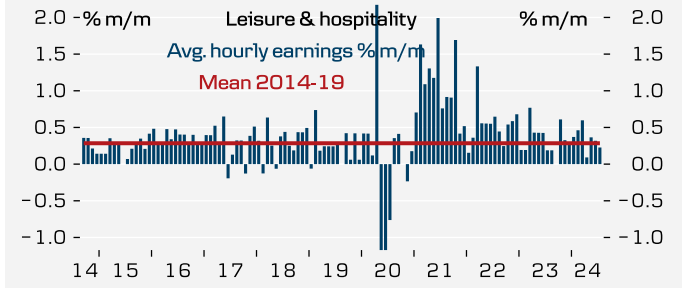
Source: Macrobond Financial, BLS

Declining wage pressure



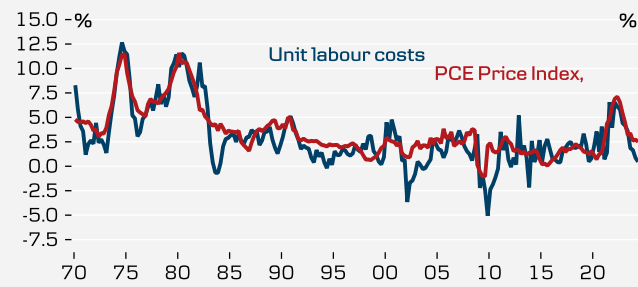
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

Unit labour cost growth has generally cooled since 2022



Source: Macrobond Financial, BLS, Census, BEA

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