

US Macroeconomics

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The Trend Isn't Your Friend

Headline April jobs were solid at 253k but after 149k in downward revisions, the trend is clearly lower. **Over the last three months, nonfarm payrolls averaged 222k, the lowest reading since January 2021.** April compares to 295k in the previous month, 334k in January and 400k-plus last Fall.

The weekly claims report is a leading indicator of broader employment trends. When workers are laid off, they file for unemployment insurance. Large increases in claims reflect waning labor demand and precede recessionary episodes. **This week's claims data take on added significance because they capture the survey period for May employment,** released June 2nd.

Last week, initial jobless claims rose by a larger than expected 22k (to 264k), which lifted the four-week moving average to 245k from 239k previously. This compares to last September's cyclical low of 191k. The current four-week moving average already has risen enough to put economists on recessionary alert.

According to our calculations, **the average (and median) percentage increase in claims from their cyclical low to where they are when a recession begins is just 23%.** This is shown in the table below which looks at the last 10 recessions excluding the pandemic-related downturn.

With the four-week moving average having troughed at 191k last year, a 23% increase in initial jobless claims places them at 235k, which is slightly below their current reading. If, however, we want to just look at the last several business cycles where the recessionary threshold on claims has risen perhaps due to labor hoarding. The hurdle for a downturn is 33% or 254k, which is only modestly above today's level.

The bottom line is that claims are edging higher while job gains are slowing. We expect this to continue as retention packages from recently laid off workers run out. Note that people cannot file for unemployment insurance if they are receiving severance. Based on announced layoffs, we expect initial jobless claims to move up substantially over the next few months.

Date	Claims at Recession Onset	% Change From Trough
Sep-52	207	23.2
Sep-54	235	15.2
Apr-59	294	20.5
Apr-66	221	23.5
Feb-73	255	14.9
Sep-78	413	27.5
Mar-81	438	7.4
Jan-89	367	26.6
Mar-00	388	42.6
Feb-06	380	30.1
Average >	320k	23%

Sources: Department of Labor, Haver, SMBC Nikko

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