

US Macroeconomics

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Beware Late Cycle Job Gains

September job additions were much stronger than expected. Headline payrolls jumped 336k after 119k in upward revisions, reversing the downward trend since January. A 73k increase in government jobs which was concentrated in the state and local sector (67k) overstated the headline job gain. Still, the 263k rise in private payrolls was impressive. The job gains were broad-based as evidenced by a high 64% reading on the diffusion index of employment. What do these robust employment figures say about the future? History provides a cautionary guide.

There are three types of economic statistics — lagging, coincident, and leading. Lagging indicators (unit labor costs, inflation, and bank loans) lag the growth rate in real GDP. Coincident indicators (personal income, industrial production, and nonfarm payrolls) grow in line with the broader economy. Leading indicators (the yield curve, initial jobless claims, and durable goods orders) lead the growth rate in real GDP. **For forecasting purposes, leading indicators matter most,** and they continue to flash recession risk.

Nevertheless, could September's robust employment results be sending a signal of renewed economic vigor thus minimizing the risk of a downturn? Doubtful. In the table below, we show initially reported nonfarm payroll figures for select business cycles. **It is relatively common for the labor market to experience large payrolls either shortly before or at peaks in economic activity.** It has happened in five out of the last 10 business cycles.

In April 1960 and July 1981, the economy generated huge payroll gains in the same month that it peaked. Recessions started the following month. There were also large job gains in October 1973, December 1979, and January 2001. The economy peaked just one or two months afterward.

Declining leading indicators, restrictive monetary policy and tightening financial conditions suggest that September's good jobs news is unlikely to last. Stay tuned.

Month	Nonfarm Payrolls	Economic Peak	Months from Payrolls to Peak
April 1960	241	April 1960	0
October 1973	305	November 1973	1
December 1979	317	January 1980	1
July 1981	383	July 1981	0
January 2001	268	March 2001	2

Sources: BLS, NBER, Haver, SMBC Nikko

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