

# US Macroeconomics

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## Where Job Cuts Could Come From

**The labor market is potentially showing early signs of cracking.** In the past, we have pointed to the observation that when the unemployment rate rises 50 basis points (bps) off its cyclical low, the economy invariably enters a recession. Currently we sit at 3.8% which is **up 40 bps** from April 2023's 3.4% reading. This is important because payroll growth is slowing steadily and year-to-date, there has been a record 2.3 million drop in private job openings (sans pandemic).

Now, evidence from the National Federation of Independent Businesses (NFIB) shows small business hiring rapidly downshifting, possibly signaling a further loosening in the jobs market. **Small businesses are highly cyclical entities accounting for roughly 46% of total US employment.** When they move, the impacts are noticeable, and others follow.

Small business hiring plans are down 9-percentage points since January 2022 and 15-points since August 2021's cyclical peak. **Drops in this series, of this magnitude, generally precede recessions and increases in joblessness,** as shown below. Notice that recession began 16 months following March 1989's cyclical peak. Then, there was a 14-month lead whereby recession began in March 2001 following January 2000's peak. Then there was a 13-month lead between the November 2006 peak and December 2007's recession onset. The economy on average (1990, 2001, 2007-09) enters recession 14 months after small business hiring plans top. Currently we are at 22 months. The statistical relationship between these data implies that unemployment should be 4.9% or 110 bps (or 1.8 million people) higher than at present! Instead, unemployment has *fallen* 20 bps since the beginning of 2022 creating a yawning gap between the two series — a sign of impending weakness. We chalk this extended lead time (and gap) up to exceptional post-pandemic economic momentum. But, with every 2023 NFP print being revised down, totaling 355k jobs so far, momentum is running out. Although we forecast a below consensus 130k job adds next week, broader *cuts* could be on the horizon.



Sources: NFIB, BLS, NBER, Haver, SMBC Nikko

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