

US Macroeconomics

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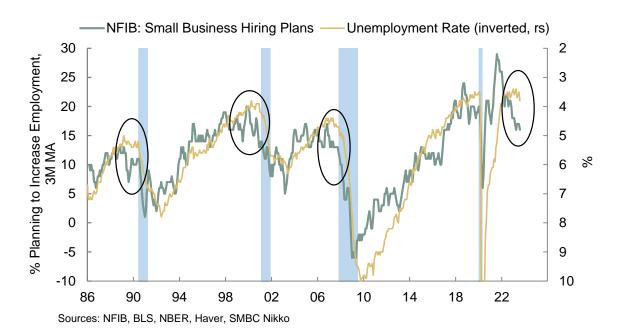
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Where Job Cuts Could Come From

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 <u>up 40 bps</u> 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.





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