

## US Macroeconomics

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### What Should We Be Watching For a Turning Point?

The labor market continues to generate job gains but the pace has been slowing. A recession will not start until job growth turns negative. **The construction industry will be one of the first places to look for an employment inflection point.** This is almost always the sector that leads the rest of the economy.

In the chart below, we show the job openings rate for construction as well as the year-over-year change in real residential investment shifted two quarters forward, and the year-over-year change in residential employment.

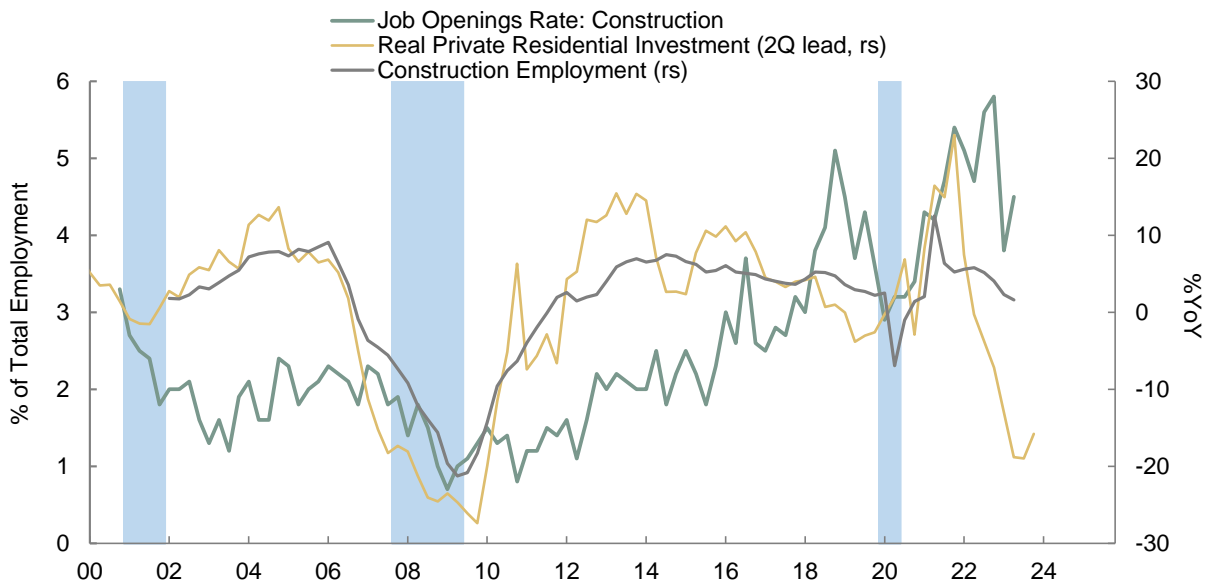
Last quarter, the job openings rate for construction rose to 4.5% from 3.8% previously. This is down from its cyclical peak of 5.8% in Q4 2022. Note that updated figures will be released tomorrow morning.

At the same time, real residential investment continues to decline, down 16% over the past year. While there may be a sequential gain in spending this quarter, it is likely to be temporary given the ongoing surge in mortgage borrowing rates. They are up over 7%, their highest reading in over 20 years.

**Despite the slowing in job openings and the collapse in housing investment, residential payrolls continue to expand.** They have risen four months in a row and are up about 60k in the last year. If the leading relationship between the trend in residential investment and residential hiring holds, construction loss is imminent.

According to our calculations, the level of residential payrolls is approximately 700k too high as judged by real housing construction. If the economy loses this many jobs, it alone will push the unemployment rate up 40 basis points to 3.9%. Of course, there should be negative spillover effects elsewhere in the labor market, too.

Consequently, we will be paying close attention to this week's JOLTS and employment data to see if the labor market is moving closer to a fundamental inflection point. Stay tuned.



Sources: BLS, BEA, Haver, SMBC Nikko

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