The Daily Dish

July Jobs

FRED ASHTON | AUGUST 2, 2024

A DOWNSHIFT IN THE LABOR MARKET

There are some who only see the bad news. This forecaster tends to be one of those people. Freddy of Freddy's Forecast is, after all, a New York Jets fan, so an affinity for disappointment comes standard. While the headline payroll number in this morning's jobs report from the Bureau of Labor Statistics is likely to show continued growth, the details could offer more evidence that the strong labor market seen early in 2024 is steadily cooling.

A telling sign of the slowdown would be an uptick in the unemployment rate. An increase to 4.2 percent would trigger a recession indicator known as the Sahm rule, a topic Eakinomics recently discussed. The Sahm rule compares the three-month moving average of the unemployment rate with the low over the previous 12 months. The idea is that a recession is looming if the difference rises or exceeds 0.5 percentage points. The Sahm statistic sat at 0.43 in June, just below the threshold.

A rise in the unemployment rate is not the only sign of a weakening labor market. Since June of last year, the household survey's measure of the number of employed increased by just 195,000, a sizeable downshift compared to the 2.9 million between June 2022 and June 2023. This lackluster growth has been masked by relatively strong payroll numbers that showed employment expanded by 2.6 million between June 2023 and June 2024. Moreover, the household survey estimated that the number of unemployed increased by 814,000 since June 2023.

None of this is to say the bottom is falling out from under the labor market. There is still plenty of evidence suggesting the economy is chugging along. (See Eakinomics for a full rundown.) In fact, a cooling jobs market is exactly what the Fed wants. The July jobs report comes on the heels of the July Federal Open Market Committee meeting where Fed Chairman Jerome Powell signaled that rate cuts could come as soon as its next meeting in September.

FREDDY'S FORECAST: JULY JOBS

The latest jobs report showed employers added 206,000 new hires to the payrolls in June while the unemployment rate inched up to 4.1 percent. Wage growth dipped below 4 percent.

Since the last report, JOLTS data showed a slowdown in labor demand as job openings declined by 46,000 to 8.18 million, the lowest since February 2021. The number of hires also dropped from 5.655 million in May to 5.341 million in June. That was the lowest number of hires since the onset of the pandemic and more in line with levels in early 2017.

Initial claims continued their steady ascent since bottoming at 187,000 in the week ending September 24, 2022. The latest report for the week ending July 27, 2024, showed initial claims were 249,000. Perhaps more indicative of a weakening trend in the labor market are continued claims, which are now up 40 percent from the cycle low in June 2022 to 1.877 million.

A report from the Institute for Supply Management showed that employment in the manufacturing sector fell deeper into contraction as the index dropped to its lowest reading since June 2020. The data for the services sector, which makes up 80 percent of U.S. employment, were not available prior to the employment report.

Data from ADP showed that private-sector employment increased by 122,000, the slowest pace since January. Moreover, year-over-year wage growth for job stayers slowed to 4.8 percent in July, the slowest pace in three years. Job-changers, meanwhile, saw wage gains slow to 7.2 percent from 7.7 percent. Both measures of wages suggest the labor market is rebalancing.

Compensation for civilian workers, according to the employment cost index, increased 0.9 percent for the three-month period ending in June 2024, a slower pace than 1.2 percent in the first quarter.

Expect a slowdown in the topline payroll number of 167,000 and an uptick in the unemployment rate to 4.2 percent. Growth in hourly earnings remains steady, up 9 cents or 0.3 percent.